



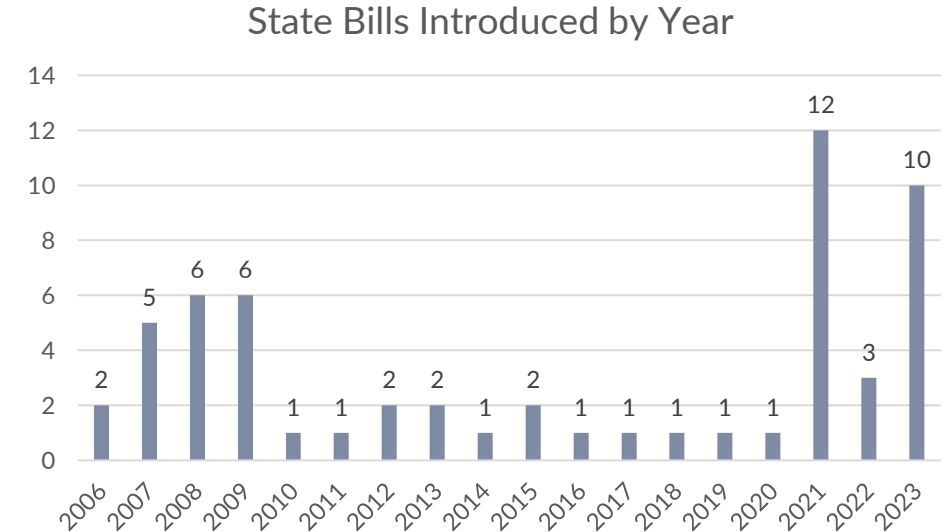
Cornerstone
ADVISORS

Harmful Impacts of Removing Sales Tax from Interchange Calculations

Glenn Grossman | October 2, 2023

State Proposals – 17 Years of Repeated & Failed Attempts

- 58 bills over 17 years – none have passed
- Often lite on detail and a mildly confusing
- No requirements for merchants
- Proposed language/actions
 - Cannot charge interchange on sales tax for any card payment
 - Remove the calculation of “interchange” on the sales tax portion of each payment
 - Rebate the portion of “interchange” after-the-fact



Sales Tax – Far From Simple

Tb1 4/1		Chk 9426		Gst 2	
Jun29'22 06:07PM					
1 QUESO		8.59			
1 COMIDA DELUXE		13.29			
1 COMBO TACOS		10.39			
1 SCOOP SC		0.85			
2 LG ROCKS		22.00			
1 LG STRAW		11.00			
Subtotal		66.12			
Total Tax		3.97			
06:44PM Total Due		70.09			
Food Tax		1.99			
Liquor Tax		1.98			

THANK YOU!!

IRT 007874214382 F	1.96
IRT 007874214418 F	1.96
007874235187 F	2.93
121 007874236437	6.12
AM RF 003700004451	5.64
REFIL 075703700045	5.64
RANU 007874237117 F	6.12
TRASH 007874235128	13.76
POODLE 004178900121 F	
T 1 FOR 0.48	5.76
TEY 001070085855 F	1.98
SUBTOTAL 348.84	
TAX 1 8.600 %	30.00
TAX 2 6.100 %	15.36
TOTAL 394.20	
DEBIT TEND	394.20
CHANGE DUE	0.00
PAY FROM PRIMARY	
TOTAL PURCHASE	
**** ** 0368 I	
100112470	
D. 0090 APPR CODE 001400	
000980840	
EC037A6123	
fied	
# MX181456	
01/01/23 13:35:01	
# ITEMS SOLD 115	
335 0561 6191 7910 5417 4	

Description	Amount
Bank Good Weed	\$11.99
Tooth Spray Incredibly	\$7.99
Sub Total \$19.98	
SC State Tax	\$1.20
SC Capital Projects	\$0.20
SC Education	\$0.20
SC Tourism	\$0.20
Total	\$21.78
Cash Tendered	\$25.00
Change Cash	\$3.22

11,000 different sales and use tax jurisdictions in the United States

Possible Solutions



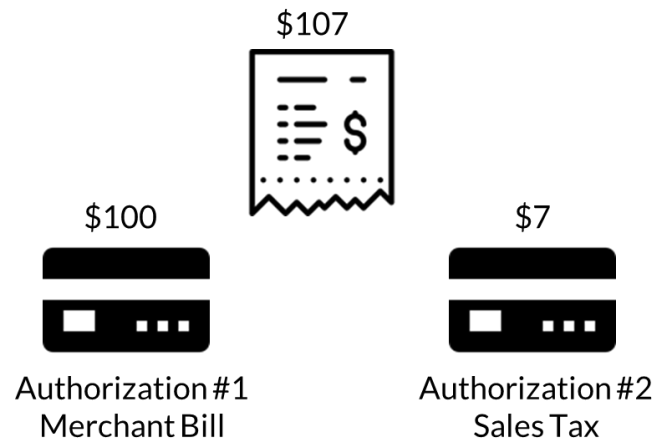
Possible Solutions – Exposes Challenges

Separate Transactions

- Conduct one authorization for the base purchase/payment
- Conduct one authorization for the tax payment

A few possible hurdles to achieve this:

- Changes to merchant POS systems
- Changes to the entire payment system
- Declines and customer service



Level 2 Transactions

- Send total tax via the Level 2 process
- Send only total tax

A few possible hurdles to achieve this:

- Changes to merchant POS systems
- Changes to the entire payment system
- No accountability if tax reported is accurate

Level 1	Level 2	Level 3	
<ul style="list-style-type: none"> • Merchant name • Merchant category code (MCC) • Billing ZIP code • Total purchase amount • Purchase date 	<p style="text-align: center;">+</p> <div style="border: 1px solid black; padding: 5px;"> <p style="text-align: center;">Level 1</p> <ul style="list-style-type: none"> • Sales tax amount • Customer reference number/code • Merchant ZIP/postal code • Tax ID • Merchant minority code • Merchant state code </div>	<p style="text-align: center;">+</p> <div style="border: 1px solid black; padding: 5px;"> <p style="text-align: center;">Level 1</p> <ul style="list-style-type: none"> • Ship-from ZIP/postal code • Ship-to/destination ZIP code • Invoice number • Order number • Item product code • Item commodity code </div>	<div style="border: 1px solid black; padding: 5px;"> <p style="text-align: center;">Level 2</p> <ul style="list-style-type: none"> • Item description • Item quantity • Item unit of measure • Item extended amount • Freight amount • Duty amount </div>

Possible Solutions – More Challenges



Rebate after-the-fact

- No change to the payment authorization process
- Data shared later to calculate a rebate

A few possible hurdles to achieve this:

- New reporting and billing processes for merchant acquirers
- Mismatch between sales tax reporting
- Ability to over report sales tax

Merchant Methods

- Surcharge your customer for the sales tax portion of MDR / Interchange
 - Current bills have no language to prevent merchants from double dipping with surcharges + rebates
- States can rebate the merchant
 - Extend existing rebates with a flat value, possibly vary it by merchant size
 - Returns the cost of collecting sales tax to its rightful owner

PLEASE DETACH AND RETURN BOTTOM PORTION ONLY

TEXAS SALES AND USE TAX RETURN

1. TOTAL TEXAS SALES (Whole dollars only) \$0.00

2. TAXABLE SALES (Whole dollars only) \$0.00

3. TAXABLE PURCHASES + (Whole dollars only) \$0.00

4. Total amount subject to tax (Item 2 plus Item 3) \$0.00

5. Tax due - Multiply Item 4 by the combined tax rate (Include state & local)

6. Timely filing discount (0.005)

7. Prior payments

8. Net tax due (Subtract Items 6 and 7 from Item 5.)

9. Penalty & interest (See instructions)

10. TOTAL AMOUNT DUE AND PAYABLE (Item 8 plus Item 9)

← Tax not reported by payment method or date

Oh...but wait a minute. Did I forget something?



State Policymaker

Challenges



Auditability and Validation

- There is no such thing as “trust me” in financial services
- There is a requirement to have the necessary details to validate the sales tax values
- Transaction by Transaction
 - Line-item detail
- After-the-fact
 - Matching process
 - Current sales tax reporting does not match payment processing

State Tax Repository

- A need to match sale tax values with values obtained by the merchant acquirer
- Retailers report by location and often quarterly
- Merchant processing track payments to a terminal ID by batch (often by day)
- This repository would be needed for accountability

More Challenges



Privacy & PCI Compliance

Privacy

- Line-items detail would change the privacy framework
- Banks and credit unions would now have what we purchase
- Tax by category in a repository could associate types of purchases

PCI Compliance

- Reporting sales tax by card type would require merchants to hold card data
- Sending new data would require changes to terminals with variation by state

Financial Challenges

Merchants

- The cost to upgrade systems, but for small merchants the cost can far outweigh the benefits
- The POS systems are still mostly distributed (not cloud based)

Financial Institutions

- Asking FIs to voluntarily give up revenue ~ 7% average sales tax
- Reduces the revenue to fight fraud



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Thank You