

TESTIMONY OF DOUG KANTOR
GENERAL COUNSEL, NATIONAL ASSOCIATION OF CONVENIENCE STORES
BEFORE THE
ALASKA COMMITTEE ON LABOR AND COMMERCE
May 12, 2025

Thank you for providing me with the opportunity to testify on the swipe fees that are imposed by the credit card industry on merchants and SB 79. Most consumers are not aware of swipe fees and do not see the inflationary effects they create on the cost of goods and services and the U.S. economy, but those effects are dramatic. For merchants, these excessive and ever-increasing fees are a constant source of stress and financial difficulty, and for consumers these fees contribute significantly to inflation. In fact, swipe fees reduce efficiency across the economy.

I am testifying today on behalf of my association, the National Association of Convenience Stores (NACS). NACS is an international trade association representing the interests of the convenience industry. In Alaska, the industry includes nearly 300 stores employing more than 4,700 people and collects more than \$400 million in taxes.

Throughout the nation, the industry includes more than 150,000 stores employing 2.44 million people. It is truly an industry of small business with a full 60 percent of the industry comprised of single-store operators. The industry handles about 165 million transactions in total each day – a number equivalent to about half of the U.S. population. An efficient and competitive payment system is critical to the health of the industry, its employees, and its customers.

The Problems with the Credit Card Industry's Swipe Fees

The credit and debit card systems in the United States are burdened by anti-competitive conduct that makes the systems less efficient and effective than they should be. Two payment card networks, Visa and Mastercard, dominate the market and bring together thousands of card-issuing banks across the nation to wield market power in ways that harm competition in the marketplace. Merchants have no realistic options to refuse to take cards controlled by the dominant networks and virtually all the banks that are their members. With very few exceptions, merchants must accept all credit and debit cards that run over those two networks no matter how high the fees the networks charge and no matter how onerous the rules and conditions they impose. The high fees that result from this exercise in market power inflate the costs of goods and services across the nation in a way that harms consumers.

It does not have to be this way. The rates that Americans pay on credit card swipe fees are the highest in the industrialized world – and it's not close. The U.S. Congress has a potential answer to the industry's lack of competition in the Credit Card Competition Act (CCCA). The Alaska legislature, however, can act to fix another harmful aspect of swipe fees by passing SB 79. To understand the harm created by swipe fees and how Alaska can help deal with it, it helps to understand the current problems.

The problems in this market have developed because Visa and Mastercard centrally set the fee rates for the largest portion of swipe fees, known as interchange fees. These are fees typically ranging from 2 to 3 percent of the transaction amount that card-issuing banks charge to merchants each time a Visa or Mastercard card is used. But the banks that receive the fees don't set the fees - they let Visa and Mastercard fix fee rates on their behalf. Because the banks' fees are centrally set in this way, the banks don't compete on price. That leads to problems that are common for anti-competitive arrangements – high and escalating prices and neglect of key aspects of the service (such as protection against fraud). Visa and Mastercard also dictate a complex set of terms (called network rules) that govern how credit card transactions happen. These terms further insulate swipe fees from competitive market pressures and, in most cases, keep the fees confusing for merchants and hidden from consumers.

In particular, by imposing an “honor all cards” rule that requires a merchant to accept all cards issued with a Visa (or Mastercard) logo if the merchant wants to accept any cards carrying those networks' logos, the two largest networks remove the incentives for banks to negotiate with merchants on price or acceptance of their cards – and remove almost all bargaining power that merchants otherwise might have had. This is a central element of the credit and debit card systems in the United States today. In effect, Visa and Mastercard have created cartels that control prices and terms to the detriment of merchants and consumers.

The extent of the anticompetitive problems created by this structure was recently highlighted by the U.S. Department of Justice (DOJ) in the lawsuit it filed against Visa.¹ While that case only covered debit cards, a story in the Wall Street Journal made clear that Visa's anticompetitive actions also negatively impacted the credit card market.²

The problems caused by all this for consumers, merchants and the economy are immense. Total card swipe fees imposed on merchants were \$187 billion in 2024³ – up from \$64 billion in 2010. Of that total, \$111.2 billion were interchange fees for Visa and Mastercard branded credit cards.⁴ Visa and Mastercard also collected swipe fees called network fees for themselves that in 2023 totaled \$10.9 billion on credit cards and \$8.3 billion on debit cards.⁵ The size of swipe fees and the fact that they are set largely as a percentage of transaction amounts means that they are an inflation multiplier; as inflation goes up the amount of fees collected goes up with it, which forces retailers to further raise prices to cover the increased fees. This inflates what all consumers pay.

The roles played by the two dominant card networks and the fees and terms they set cause other problems as well by reducing incentives for innovation in new payment products and improvements in services such as fraud protection. The United States should have the most

¹ U.S. v. Visa, Complaint (Sept. 24, 2024) (available at [dl](#)).

² “Visa Wanted a Vast Empire. First, It Had to Beat Back Its Foes.” By Annamaria Andriotis, The Wall Street Journal (Oct. 19, 2024) (available at [Visa Wanted a Vast Empire. First, It Had to Beat Back Its Foes. - WSJ](#)).

³ The Nilson Report, March 2025 (available at [1282 - Nilson Report](#)).

⁴ The Nilson Report, March 2024 (available at [1282 - Nilson Report](#)).

⁵ CMSPI-IAC State of the Industry Report (Sept. 2024) at 19 (available at [State of the Industry Report | CMSPI Global](#)).

efficient, effective and innovative payment system in the world, but we don't. Instead, as revealed by the Justice Department and the Wall Street Journal, we actually have a dominant payment network -Visa- actively holding back innovation in the market through pay-offs and manipulative fee practices. This market desperately needs changes so that there are competitive market forces that improve payments for everyone.

The Benefits of SB 79

Because the largest part of swipe fees are charged as a percentage of the transaction amount, swipe fees are especially problematic for the portions of transactions that merchants do not keep – taxes and tips. For both taxes and tips, merchants are obligated to give those funds to someone else, either the state/local government or the tipped worker. But, the credit card industry swipes a big chunk of that money before the merchant can give it to anyone. That means merchants must go into their own pockets to make up the shortfall to make the government or their employees whole. That simply is not fair.

SB 79 would address precisely this injustice. It would simply prohibit the credit card industry from taking swipe fees out of the tax or tip portion of a transaction. That is all. It would not solve the entire problem with anticompetitive swipe fees. That is up to Congress. But, it would deal with one of the most egregious swipe fee injustices that Main Street merchants face – the financial penalty they take simply by doing a service for the government or their employees through collecting taxes or tips on their behalf. Main Street did not ask to be the tax collector for the state. They are required to do that. They should not face a financial penalty from the credit card industry for performing that service.

And that financial penalty is not a small one. In Alaska, the swipe fees that the card industry takes from merchants just on the sales tax amounts of transactions alone is \$6.2 million per year.⁶ Those funds inflate prices that every Alaskan pays and punish Alaska merchants who must go into their own pockets to make up for the tax revenue taken by the credit card industry that the merchants are still legally obligated to provide to the state.

An analogy may be helpful here. The Alaska Department of Revenue employs people to do the job of collecting taxes for the state. This is a necessary function and similar to what merchants do for the state on taxes they collect. If the credit card industry imposed a special fee that took away part of the salaries of Alaska Department of Revenue employees, we would all be outraged that they would penalize those employees for doing their duty. We would expect legislation to quickly prohibit such a fee. We expect it would pass overwhelmingly.

That is effectively what happens with the credit card industry's swipe fees on the tax amount of transactions in Alaska. It hits stores that collect taxes for the state and hits them harder if they collect more taxes for the state. This needs to stop, as does the similar penalty that swipe fees impose on tips that merchants collect for their workers.

⁶ CMSPI, [How much interchange was paid on sales tax in the U.S.?](#)

Objections to the Bill Are Misleading

The credit card industry's objections to the SB 79 deny reality. While the industry claims that they must charge swipe fees on taxes and tips, that is not the case. The tax and tip amounts are both part of the data flow in card transactions. The tax amount is included in what is referred to as "level 2" or "track 2" data. In fact, for many transaction flows, card processors must add the sales tax amount to the amount of the underlying good or service in order to arrive at the total and apply the swipe fee formula to it. SB 79 would actually save them that step. The tip amount is also part of the transaction data flow, as the underlying amount is communicated in an initial authorization and then the amount plus the tip is communicated through the settlement process.

The clearest giveaway of the fact that the card industry is not telling the whole story on this point is that the card networks collect sales tax data and then try to sell the data back to merchants (Visa has called this service "IntelliLink" and now refers to it as "Visa Spend Clarity").⁷ This service includes "Local tax support including VAT and GST". And when Visa tried to sell merchants this data, they have claimed that there was "no special hardware or software required." So, the bottom line is that if handling sales tax data drives revenue for Visa, distinguishing this data is easy to do. But, if it gives merchants a break, the card industry suddenly claims that it becomes impossible. Obviously, that isn't credible.

The other reason that these card industry objections aren't credible is the flexibility built into SB 79. The bill provides that if the data communicated at the time of sale cannot allow the interchange fees to be applied only to the underlying amount, and not taxes or tips, then the merchant can provide the tax and tip information later and get a reimbursement.

An after-the-fact reimbursement is not difficult. In fact, the credit card companies facilitate a number of after-the-fact processes to change figures on the final settlement. The largest of those processes is referred to as a chargeback and that allows the card companies to take away 100% of the sale amount from a merchant based on fraud or another transaction-related dispute. Chargebacks can take funds from a merchant several months after the transaction and have become so common that merchants actually pay for more card fraud today than the credit card companies or banks.

With billions of dollars currently flowing out of merchants' bank accounts weeks or months after the transaction as chargebacks, it is clear that the card industry could allow merchant reimbursement of fees charged on taxes and tips as well. Apparently, their only real objection to doing that isn't that it would be hard to do (because it would simply mirror what they already do today), but that doing so would benefit merchants rather than themselves.

And, those fraud chargebacks demonstrate the emptiness of the other primary objection from the card industry. The industry claims that they must charge fees on tax and tip amounts because they say that banks bear the fraud risk on those amounts. The reality is that merchants

⁷The former web address for it was at: <https://usa.visa.com/run-your-business/commercial-solutions/solutions/intellilink.html>. Since this service was referenced in previous hearings, Visa has changed the page to remove specific references to the tax data they provide.

shoulder more of the fraud risk than banks. The Federal Reserve collects data on debit card fraud every two years, and in its most recent data, the Fed determined that merchants covered 47 percent of debit card fraud and card issuing banks covered 33.5 percent.⁸ The numbers show that the card industry does not need fees on taxes and tips to cover fraud. If fraud were the primary issue, they should be sending fees to merchants, not the other way around.

The card industry also frequently points to a court case in Illinois in which the banking industry has challenged a similar law passed in that state. While the card industry is fond of claiming that the case shows the Illinois law is preempted by federal law, that is incorrect.

The Illinois court has only dealt with the question of whether it should pause application of the state law while the case is going forward to ensure that full consideration and a decision happen in the case before any business might be impacted. What the court has said so far is that Visa and Mastercard and Illinois banks and credit unions are all fully subject to the law and there is no need even to pause things for the court to hear the case with respect to those businesses. So, the Illinois law is going forward in July of this year – exactly the timeframe specified in its law.

The court did say that for national banks and out-of-state banks it would pause the law's application while the case is litigated. That part of the decision, however, is form over substance. Because Visa and Mastercard control every aspect of the system – from banks' pricing of interchange fees to the terms under which cards are processed – they are the only entities needed to ensure the law goes forward with respect to all transactions on Visa and Mastercard cards.

We know this in part because the banking trades that brought the case have admitted it. They submitted to the court an expert report on March 17th from a payments management consultant, Anthony Hayes, which says that if Visa and Mastercard need to comply with the law, then the law will have its intended effect of not allowing interchange fees to be charged on taxes and tips. To the extent that the banking industry claims the opposite when testifying in Alaska, they are contradicting their own expert.

Why is the banking industry's expert right on that point? Well, both Visa and Mastercard regularly dictate each small detail of how these transactions happen and regularly maintain different rules for different states and regions. They do things that are much more detailed and complex than what SB 79 or the Illinois law would require. They are so detailed that Visa's "Core" rules run 939 pages⁹ and Mastercard's transaction processing rules run 397 pages.¹⁰ And, those are not their only requirements for how card transactions must happen today.¹¹ SB 79 would add relatively small details to the system Visa and Mastercard have already created. Given that Visa and Mastercard are not banks and will be subject to the Illinois law and SB 79, all they

⁸ "2021 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions," Board of Governors of the Federal Reserve System (Oct. 2023) at 3, available at [Federal Reserve Board Publication](#). The remaining fraud was covered by cardholders.

⁹ [Visa Core Rules and Visa Product and Service Rules](#)

¹⁰ [Transaction Processing Rules](#)

¹¹ Visa also has a merchant data handbook, separate rules for debit transactions using Interlink and more. [Visa Rules and Policy | Visa](#). Mastercard has separate security rules, a chargeback guide, and more. [Mastercard Rules for Merchants | Customer Compliance Program](#)

need to do is say that taxes and tips will no longer be charged – and that’s what will happen. It would be hard for any reasonable person to read their mountain of rules and conclude that the bill’s changes are more complicated than what they already dictate.

The bottom line is that banks hide behind Visa and Mastercard by handing them the power to set banks’ prices and the terms of card transactions. Visa and Mastercard should not be able to hide behind banks when it comes to the application of the law, yet that is just what they are trying to do. We ask you not to let them get away with that.

* * *

The credit card industry swiping part of the tax and tip amounts from Main Street businesses before they have a chance to give those funds to state and local governments or employees is unfair and wrong. Main Street should not be penalized for performing those services, but they are today. It is as simple as that. We urge you to pass SB 79 and correct that injustice.

Alaska Cache Liquor Inc.
156 South Franklin St.
Juneau. Alaska 99810



May 9, 2025

Members of the Alaska Legislature:

I'm writing to voice my support for Senate Bill 79 and its effort to restrict swipe fees on taxes and tips for small businesses. I am a third generation to operate Alaska Cache Liquor from a family with over 70 years of experience in the hospitality industry. As a Small Business owner in the hospitality industry, I can tell you that credit card fees are a burdensome part of the many pieces that take away from the bottom line of my business. Some are part of the cost of doing business, but the fees this bill targets are the worst, as they are fees that my business is forced to pay in the process of collecting money, which is just a pass-through to others. Sometimes, fees are even assessed again when paying this pass-through money for local and state sales taxes. More and more, our customers want to use credit and debit cards as their form of payment. When I took over the business 26 years ago credit card payments were only a small portion of the payment methods in my store. Now almost 70% of the transactions I collect sales tax on, I also have to pay swipe fees on, directly taking away from the amount I can pay my employees or invest back into my business and the community. I feel lucky, as in my business, employees are not taking tips, with it being an over-the-counter retail business. But for others in my industry, they have to deal with another layer of unfair swipe fees on strictly pass-through money, collecting tips.

Please help small businesses like mine in Alaska by supporting SB79. In the current environment, our costs continue to go up with no end in sight, and the market will not support us passing this all on to our customers. Passage of SB79 would be a large win for small businesses in Alaska, which is desperately needed right now.

A handwritten signature in blue ink that reads "Paul J Thomas". The signature is fluid and cursive, with the first name "Paul" and last name "Thomas" clearly visible.

Paul J Thomas
President Alaska Cache Liquor Inc.
Juneau, Alaska



The Banks Alehouse
1243 Old Steese Hwy
Fairbanks, AK 99701
Office (907) 374-3265

May 9, 2025

Good Morning Members of the 34th Alaska State Legislature:

I am a small business owner operating a signal full-service restaurant in Fairbanks, Alaska called The Banks Alehouse. I have been serving my community in the same location since late 2008 and my partner opened the restaurant in 2004. I currently employ 46 employee's from service team members to kitchen crew members as well as managers, that all play a vital role in our small business success story. I am pleased to write this letter of support for Senate Bill 79 (SB 79).

Small businesses, like mine, in the hospitality industry here in Alaska continue to face ongoing challenges while trying to operate their business, including but not limited too significant increases to operate and ever-increasing labor costs. One of the largest expenses comes from credit card interchange fees. I hear in the public testimony this has increased by over 70% since the pandemic. I can confirm this number is accurate.

The hospitality industry in Alaska is one of the most diverse industries. As one of the top employers in the state, our industry contributes approximately \$3 billion in income for our staff (our restaurant is \$1.2million of that overall amount). As an industry that is "Open for Business" our economic impact is felt all around Alaska. This is driven largely by our friends and neighbors who are small business owners. I also hear in the public testimony that 9 out of 10 Alaska restaurants and hospitality establishments are small businesses. You can differently see that when you drive around Fairbanks, Alaska and smaller communities.

Research shows that in 2024, restaurant and hospitality businesses collected and remitted over \$900 million in taxes on behalf of all levels of government. The service of collecting taxes and remitting to and for the government cost business owner like me significantly, because the credit card company networks require us to pay interchange fees (also known as "swipe fees") on the taxes we collected and remitted to local and state government. This is also the case with tips for service team members that receive that tip from a credit card. In both situations, I collect the money, but 100% of the tips and/or tax amount is passed on to the local or state government or employee themselves. But the interchange fee still has to be paid on the total amount of the bill. These fees are coming out of my business bottom line.

SB 79 will not just help my business but hundred if not thousands of Alaskan-owned establishments around the state that collect and remit sales or other taxes on behalf of the government. This legislation would keep millions of dollars in Alaska rather than sending them to massive corporations outside of Alaska.

As a small business owner in Fairbanks, Alaska. I urge your support of SB 79.

Thank you for your consideration.

Respectfully,

Michael Cervantes
Operating Owner, The Banks Alehouse



Alaska Cabaret, Hotel, Restaurant, and Retailers Association
1503 W. 31st Avenue, Suite 102
Anchorage, AK 99503
Office (907) 274-8133
www.alaskacharr.com

May 9, 2025

Dear Honorable Members of the 34th Alaska State Legislature:

I have served as President & CEO of the Alaska Cabaret, Hotel, Restaurant, and Retailers Association (commonly known as Alaska CHARR) since 2018. Alaska CHARR is based in Anchorage but has over 750 members across Alaska communities and represents over 2,000 hospitality establishments that employ over 41,000 workers around the state. I am proud to write to you today in support of Senate Bill 79 (SB 79).

Alaska's hospitality industry continues to face significant ongoing challenges to business operations, including major increases to operating and labor costs – one of those being interchange fees which have increased by over 70% since the pandemic.

Hospitality businesses are the cornerstones of our communities and an engine of our economy. Hospitality and food service is Alaska's most diverse industry and represents over \$3 billion in labor income and \$5 billion in economic impact to Alaska. This is driven largely by our friends and neighbors who are small business owners, with 9 out of 10 of Alaska restaurants and hospitality establishments being small businesses. In 2024, restaurant and hospitality businesses collected and remitted over \$900 million in taxes on behalf of all levels of government.

However, this service for the government comes at a significant cost for the business owner, because credit card networks require businesses to pay interchange fees (also known as "swipe fees") on the taxes they collect. The same is true for tips left by credit card for servers and bartenders. In both cases, the operator collects the money, but 100% of the amount is passed on to either the government or hospitality employees. But the swipe fees (averaging 2-4% per transaction) must still be paid on the total check amount, so those fees are coming out of businesses' margins. Because of the power of the credit card companies, our small businesses in Alaska have no ability to negotiate these fees.

Restaurants alone in Alaska are paying over \$6.2 million in credit card swipe fees annually just to carry out their role in collecting taxes on behalf of localities. This does not include all other Alaska businesses across the state that collect and remit taxes on behalf of governments. This figure is certainly much higher for gratuities and tips given that a conservative estimate for the typical restaurant tip is 15% across the nation. Alaska businesses should be protected from paying costly interchange fees when collecting money on behalf of the government or employees.



One of our members who owns stores around Alaska spent over \$50,000 last year on interchange fees just on the alcohol tax collected on behalf of the Municipality of Anchorage. To be clear, these are not the fees charged for the transaction of the actual products purchased; these are fees charged on the just taxes collected. That vendor, which is an Alaskan-owned business, had to pay \$50,000 to the credit card processor to collect monies that the business doesn't even get to keep. Dozens of restaurants and other small hospitality businesses have reported to the Alaska CHARR team that the money they would save if the language in this legislation passes would enable them to hire additional employee positions on their teams.

The profit margins of restaurants and hospitality businesses pre-pandemic averaged 5% and yet currently, our average profit margin is closer to 1-2%. With the impact that new mandatory paid sick leave provisions and increased tariffs have on our industry, that number will certainly continue to decline. Hospitality establishments cannot deflect all their increased costs through menu pricing; customers will only pay so much for a cheeseburger, and data shows that consumer spending through economic uncertainty – like we are currently experiencing – has a disproportionately significant impact on the hospitality and foodservice industry. This miniscule profit margin is what thousands of families rely on to pay their personal utilities and feed their families.

SB 79 will help thousands of Alaskan-owned establishments around the state that collect and remit sales or other taxes on behalf of the government. This legislation would keep millions of dollars in Alaska rather than sending them to massive corporations in New York, meanwhile supporting small and Alaskan-owned businesses, increasing employment opportunities for Alaskan workers, and further contributing to Alaska's economy.

As the voice of Alaska's hospitality industry, I urge your support of SB 79.

Thank you for your consideration.

Respectfully,

A handwritten signature in green ink, appearing to read 'Sarah', is placed above the printed name.

Sarah Oates Harlow
President & CEO
sharlow@alaskacharr.com



Alaska Cabaret, Hotel, Restaurant, and Retailers Association
1503 W. 31st Avenue, Suite 102
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May 9, 2025

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Alaska's hospitality industry continues to face significant ongoing challenges to business operations, including major increases to operating and labor costs – one of those being interchange fees which have increased by over 70% since the pandemic.

Hospitality businesses are the cornerstones of our communities and an engine of our economy. Hospitality and food service is Alaska's most diverse industry and represents over \$3 billion in labor income and \$5 billion in economic impact to Alaska. This is driven largely by our friends and neighbors who are small business owners, with 9 out of 10 of Alaska restaurants and hospitality establishments being small businesses. In 2024, restaurant and hospitality businesses collected and remitted over \$900 million in taxes on behalf of all levels of government.

However, this service for the government comes at a significant cost for the business owner, because credit card networks require businesses to pay interchange fees (also known as "swipe fees") on the taxes they collect. The same is true for tips left by credit card for servers and bartenders. In both cases, the operator collects the money, but 100% of the amount is passed on to either the government or hospitality employees. But the swipe fees (averaging 2-4% per transaction) must still be paid on the total check amount, so those fees are coming out of businesses' margins. Because of the power of the credit card companies, our small businesses in Alaska have no ability to negotiate these fees.

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The profit margins of restaurants and hospitality businesses pre-pandemic averaged 5% and yet currently, our average profit margin is closer to 1-2%. With the impact that new mandatory paid sick leave provisions and increased tariffs have on our industry, that number will certainly continue to decline. Hospitality establishments cannot deflect all their increased costs through menu pricing; customers will only pay so much for a cheeseburger, and data shows that consumer spending through economic uncertainty – like we are currently experiencing – has a disproportionately significant impact on the hospitality and foodservice industry. This miniscule profit margin is what thousands of families rely on to pay their personal utilities and feed their families.

HB 171 will help thousands of Alaskan-owned establishments around the state that collect and remit sales or other taxes on behalf of the government. This legislation would keep millions of dollars in Alaska rather than sending them to massive corporations in New York, meanwhile supporting small and Alaskan-owned businesses, increasing employment opportunities for Alaskan workers, and further contributing to Alaska's economy.

If I may make one small request for an amendment, it would be to remove "issuers", "acquirer banks", and "processors" from this legislation and just have it apply to payment card networks, as the networks are the entities who set the fees. Illinois passed similar legislation last year, and we have learned through litigation in that state that this type of legislation is best pursued by limiting it to the actual networks. This will still result in the same positive impact on small businesses and the Alaska economy.

As the voice of Alaska's hospitality industry, I urge your support of HB 171.

Thank you for your consideration.

Respectfully,

Sarah Oates Harlow
President & CEO
sharlow@alaskacharr.com