



DCUC
DEFENSE CREDIT UNION COUNCIL

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Jason Stverak
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August 23, 2025

The Honorable Carmelo Ríos Santiago
Senator, Puerto Rico Senate

Ms. Heide Colom
Secretary of the Senate, Puerto Rico Senate

Re: Opposition to Senate Bill 675 – Excluding Taxes and Gratuities from Interchange Fee Calculations

Dear Senator Ríos and Secretary Colom,

I am writing on behalf of the Defense Credit Union Council (DCUC) to express our strong opposition to Senate Bill 675 (SB 675), which seeks to exclude sales taxes and gratuities from interchange fee calculations. DCUC represents over 200 defense-focused credit unions serving nearly 40 million military members, veterans, Department of Defense civilians, and their families. Many of these credit union members live and work in Puerto Rico, relying on our member credit unions – such as those on local military installations – for their financial services. As an organization whose mission is *“to champion the interests of America’s credit unions serving our military and veteran communities”*, we are deeply concerned that SB 675 would gravely harm Puerto Rico’s financial ecosystem, especially the defense credit unions and the servicemembers and veterans they support. We respectfully urge you to reject SB 675.

Interchange Fees Enable Secure, Reliable, and Convenient Payments: Interchange fees are not arbitrary charges; they are the modest fees that help fund the backbone of our electronic payments network. Thanks in part to interchange, Puerto Rico’s card payment system today is **fast, safe, and secure** – attributes that consumers and merchants have come to depend on. Interchange revenues support the sophisticated fraud prevention tools, cybersecurity measures, and customer service infrastructure that make it possible for someone to swipe or tap a card and instantly buy goods with confidence that the transaction will be completed correctly. In short, interchange fees underwrite the convenience and safety of card payments, allowing financial institutions to offer consumers reliable access to credit and debit, robust fraud protection, and popular card benefits like rewards programs. SB 675 threatens to upend this well-functioning system by arbitrarily carving out portions of transactions (taxes and tips) from the established interchange framework – a change that **would be a monumental, unprecedented disruption to a system that works well.**

SB 675’s Requirements Are Unworkable and Technically Burdensome: The proposal to exempt sales tax and gratuity amounts from interchange fees may sound simple in concept, but in practice it is highly unworkable with current technology. **Current payment systems do not have the capability to automatically identify and separate sales taxes or tips from the total transaction amount** at the point of sale. Every credit or debit card transaction is processed as a single total sum – the networks and machines facilitating these payments are not designed to parse out specific line-items (like an 11.5% sales tax or a restaurant tip) and apply a different fee calculation to those portions. Creating a mechanism to do so **would require a unique, Puerto Rico-only overhaul of the payment infrastructure, taking years to develop and at great**

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expense. The global electronic payments system simply is **not designed for individual state or territory models.** Imposing this insular requirement would burden every stakeholder in the payment chain – card networks, payment processors, banks, credit unions, and merchants – with complex new software, reporting mandates, and compliance costs to somehow filter out tax and tip amounts on every transaction. Such a massive technical undertaking is unprecedented, and **it is unclear how much the development and implementation would cost, who would bear those costs, or how long it would take.** What is clear is that mandating a bespoke solution for Puerto Rico will introduce significant complexity and fragility into an otherwise efficient system.

Disproportionate Harm to Small Institutions and Military Credit Unions: The burdens imposed by SB 675 would fall especially hard on smaller financial institutions in Puerto Rico – including defense credit unions serving military bases and communities. Unlike multi-billion-dollar banks, these credit unions are not-for-profit cooperatives with limited resources and thin operating margins. They do not have in-house IT armies or the luxury of absorbing revenue losses without impacting their member services. If forced to comply with a costly new interchange exception rule, defense credit unions would face difficult choices: delaying other technology upgrades, raising fees, or cutting back on the very services and benefits that their member-owners (active-duty troops, veterans, and military families) count on. It is also worth noting that a Puerto Rico-specific rule could create an uneven playing field in the financial sector. Large out-of-state card issuers may not ultimately be subject to the same requirements, whereas local institutions would be – potentially **putting Puerto Rico’s homegrown credit unions at a competitive disadvantage to national players.** In sum, SB 675’s technical mandates and revenue impacts would **disproportionately hurt smaller community institutions,** undermining organizations that exist to serve those who serve our country. This is the exact opposite of strengthening Puerto Rico’s financial ecosystem.

Costs Passed on to Consumers (Including Servicemembers): At the end of the day, the added costs and lost interchange revenue caused by SB 675 will inevitably be passed on to Puerto Ricans as consumers – among them thousands of servicemembers, veterans, and their families. If credit unions and banks are no longer allowed to collect interchange fees on portions of transactions, they will have to make up that shortfall elsewhere. This could mean higher account fees, higher loan interest rates, or lower dividends on savings for members. It could also mean cutbacks in card rewards programs or fewer resources to invest in security enhancements. Merchants, too, will face new costs – from upgrading point-of-sale systems to handle separate tax/tip reporting, to potential delays in reimbursement of those amounts – and those costs will be reflected in higher prices at the checkout line. Indeed, the very process of implementing a unique PR-only payments system would carry significant expense, and **Puerto Rico consumers will ultimately “pick up the tab,” as businesses seek to recoup the massive costs of research, development, and implementation.** It is neither fair nor wise to saddle hardworking families (including military households on tight budgets) with these hidden costs, especially when they gain no direct benefit from the proposed change.

Undermining Consumer Benefits and Preferences: We also caution that SB 675 would likely diminish the consumer benefits that Puerto Ricans currently enjoy from card payments. **Research shows over 90% of consumers are happy with their credit and debit cards,** and for good reason. Credit and debit cards offer extraordinary convenience and strong fraud protections – for example, zero liability for unauthorized charges and real-time monitoring to catch fraud – as well as valuable reward programs like cashback, airline miles, and discount offers. These popular perks and safeguards are made possible in large part by interchange fees funding the payments ecosystem. By cutting into interchange revenues, SB 675 threatens to *“put at risk customer benefits such as airline miles, cash back, and travel points”* that consumers love and have come to expect. It is telling that **Puerto Rico’s consumers overwhelmingly choose cards because they are quick, convenient, and significantly reduce the opportunity for fraud compared to cash.** We should be very wary of changes that would compromise these advantages. For example, if SB 675 made card usage more cumbersome or led to reduced card acceptance for taxes and tips, consumers would be frustrated and could revert to riskier or less convenient payment methods. The bottom line is that SB 675 is out of step with consumer preferences and threatens to strip away features that **most consumers support and appreciate under the current system.**

No Public Benefit – Only Large Retailers Gain: Crucially, we can identify **no offsetting benefit to the public or to government finances from SB 675’s changes**. Excluding taxes and tips from interchange calculations will not put a single extra dollar into a consumer’s pocket – there is no evidence it would result in lower prices for goods or services at the register. It would not increase tax revenue for Puerto Rico (in fact, some experts warn it could decrease revenue if electronic transactions become more cumbersome). The only parties who stand to gain are a handful of large merchants and national retail chains who lobbied for this bill in hopes of reducing their own card processing costs. Any savings realized by those mega-corporations are unlikely to be passed on to consumers. Past experience with interchange regulation (for example, federal debit card fee caps in 2010) showed that merchants largely kept the windfall rather than lowering prices, while consumers lost out on banking benefits. SB 675 follows this flawed pattern. It would simply shift costs in the system: rewarding big-box retailers’ bottom lines at the expense of consumers, small businesses, and community financial institutions. **There is no benefit to Puerto Rico’s government or consumers from removing sales tax and gratuity from the interchange fee calculation – only national and international mega-corporations stand to benefit.** This approach is, at its core, a giant step backward for Puerto Rico’s economy and its people.

Puerto Rico Would Be an Unfortunate Outlier: It is worth emphasizing that SB 675’s concept is highly experimental and has been rejected wherever it has surfaced in the past. **Similar bills have been considered and rejected in 30 U.S. states over the past 17 years** once lawmakers studied the likely consequences. In fact, *no jurisdiction in the world* has implemented a carve-out of this nature on card interchange fees. Enacting SB 675 would **set Puerto Rico apart from every other jurisdiction on the planet** – and not in a positive way. Such a move would isolate Puerto Rico from the uniform standards of the global payments network. This fragmentation would introduce confusion for consumers and businesses, and it could discourage financial service providers from operating or expanding in Puerto Rico due to the compliance complexities. In short, SB 675 is not a proven reform; it is a risky leap that all others (states and countries alike) have declined to take. We urge Puerto Rico not to be the outlier that tries to fix what isn’t broken, especially at such great cost.

Better Solutions to Address Taxes and Tips: If the Legislature’s intent with SB 675 is to address concerns about merchants paying interchange on tax or tips, or to protect tipped employees, we submit that there are far more practical and less disruptive solutions available. For example, to ensure that workers receive their full tips, Puerto Rico could simply **prohibit employers from deducting credit card processing fees from employees’ gratuities**, as states like California, Maine, and Massachusetts have done. This would guarantee that tips go entirely to staff, without upending the entire interchange system. Likewise, if the concern is that businesses pay interchange fees on sales tax amounts (which they later remit to the government), it’s important to recognize that interchange expenses are already **tax-deductible at both the federal and state level**, mitigating the burden. Additionally, roughly 30 states provide a small allowance for retailers to **keep a portion of the sales tax collected** as compensation for their role in tax collection. Puerto Rico could consider a similar policy to assist merchants, rather than a wholesale rewrite of payment processing rules. These targeted approaches would address the underlying issues **without fragmenting the global payments system or jeopardizing consumer benefits**.

In closing, DCUC firmly opposes SB 675 because it would harm consumers, undermine the security and efficiency of electronic payments, and place unreasonable burdens on Puerto Rico's financial institutions – all for the sake of a misguided policy that helps only a few large retail corporations. This legislation would put Puerto Rico's economy and citizens at risk for no appreciable gain. By contrast, keeping the current interchange system intact **will keep card transactions safe and convenient for everyone**. On behalf of the defense credit unions and the military communities we represent, I urge you to stand with Puerto Rico's consumers (including many active-duty servicemembers and veterans) and **reject SB 675**. Thank you for your time and consideration of our views on this critical issue. If we can provide any further information or assistance, please do not hesitate to contact me.

If you have any questions, please do not hesitate to email me at jstverak@dcuc.org or contact me via the phone at 202.557.8528.

Sincerely,



Jason Stverak
Chief Advocacy Officer
DCUC

CC: The Honorable Thomas Rivera Schatz, President of the Senate; The Honorable Nitza Morán, Senator