

The Hidden Costs of Interchange Fee Bans

An Analysis of the Illinois Interchange Fee Prohibition Act and Related Proposals

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The state of Illinois risks transforming the Land of Lincoln into the Land of Patchwork Price Controls. The Interchange Fee Prohibition Act (IFPA), passed by the Illinois General Assembly in May 2024, is a first-of-its-kind mandate that prohibits interchange fees on the tax and gratuity portions of credit and debit card transactions.¹ The Illinois General Assembly voted in June 2026 to delay implementation of the IFPA by one year.² Barring any judicial or regulatory intervention, the IFPA will take effect on July 1, 2027.

Although the IFPA was presented as a consumer protection measure,³ its origins lie more directly in Illinois' 2024 fiscal negotiations. Since the 1990s, merchants have been permitted to retain a small percentage of collected sales taxes to offset the administrative costs of tax collection and remittance.⁴

In 2024, however, Illinois lawmakers capped this long-standing discount for larger merchants as part of a broader revenue package designed to address fiscal pressures.⁵ Major retail associations strongly opposed the cap, arguing that it will increase operating costs and unfairly target businesses already grappling with inflation, rising labor costs, and workforce recruitment and retention challenges.⁶

The ban on interchange fees subsequently emerged as a way to ease merchant concerns by creating a new avenue for cost savings.⁷ While purported to be relief for merchants, the law is more likely to produce unintended consequences for consumers, financial institutions, and the majority of the merchants the law was meant to help.

More broadly, the IFPA raises fundamental questions about whether state-level payment regulation is



compatible with the uniform standards required for a functioning national payments system. These concerns, in turn, give rise to serious questions regarding the limits of state authority to regulate interstate payment networks.

This paper examines the economic, operational, and legal consequences of the IFPA. It argues that the law will fragment the payments system, harm consumers and financial institutions, and mainly benefit the largest of Illinois' merchants.

The invisible engine of modern commerce: How interchange fees work

Before delving into the effects of interchange-fee bans, it is important to explain what interchange fees are and how they work. Interchange fees are transaction fees paid by a

¹ Interchange Fee Prohibition Act, 815 Ill. Comp. Stat. 151/150-15(a) (2024), <https://ilga.gov/Legislation/ILCS/Articles?ActID=4515&ChapterID=67&Print=True>.

² Illinois General Assembly, House, *Amendment No. 1 to Senate Bill 3645*, 104th General Assembly, 2026, <https://ilga.gov/Legislation/BillStatus/FullText?DocName=10400SB3645&DocNum=3645&DocTypeID=SB&GAID=18&LegDocId=211420&LegID=166824&Session=&SessionID=114&SpecSess=>.

³ Dick Durbin, "Durbin Files Amicus Brief in Support of Illinois Interchange Fee Prohibition Act," Office of US Senator Dick Durbin, press release, October 7, 2024, <https://www.durbin.senate.gov/newsroom/press-releases/durbin-files-amicus-brief-in-support-of-illinois-interchange-fee-prohibition-act>.

⁴ Retailers' Occupation Tax Act, 35 Ill. Comp. Stat. 120/3, (2025), <https://www.ilga.gov/Documents/legislation/ilcs/documents/003501200K3.htm>.

⁵ Illinois Department of Revenue, "Retailers' Discount for Certain Tax Returns Capped at \$1,000 Per Month," *Informational Bulletin*, October 2024, <https://tax.illinois.gov/content/dam/soi/en/web/taxarchive/research/publications/bulletins/2025/fy-2025-04.pdf>.

⁶ Kevin Bessler, "Retailers Push Back on Pritzker's Proposal to Cap Sales Tax Credit They Claim," *Center Square*, February 23, 2024, https://www.thecenter-square.com/illinois/article_b0d4661e-d1ca-11ee-b363-fb2fef1572cf.html.

⁷ National Association of Convenience Stores, "Illinois Passes Bill Eliminating Swipe Fees on Taxes and Tips," *NACS Daily*, May 30, 2024, https://www.convenience.org/Media/Daily/2024/May/30/1-Illinois-Eliminating-Swipe-Fees_GR.

merchant's acquiring bank to a cardholder's issuing bank whenever a debit or credit card is used.

These fees help finance the infrastructure of electronic payment systems. That infrastructure includes transaction authorization and settlement networks, fraud detection and cybersecurity systems, dispute resolution mechanisms, and compliance functions that collectively support the secure processing of billions of transactions worldwide.

Payment networks, such as Visa and Mastercard, operate as two-sided platforms that connect cardholders and merchants. Unlike traditional one-sided firms, which charge a single price to a single group of customers, payment networks must manage participation across two interdependent groups whose demands are interconnected.

The value of the network to merchants increases with the number of cardholders using the system, while the value to consumers increases with the number of merchants accepting cards. This parallel benefit is a cross-side network effect, meaning that participation on one side directly enhances value on the other.⁸

Because of this interdependence, payment networks cannot rely on one-sided pricing logic.⁹ Instead, they must structure fees to encourage adoption and participation on both sides of the market, thereby ensuring the network remains viable at scale.

Maintaining these two-sided payment networks requires substantial ongoing investment. In 2025, Visa reported operating expenses of more than \$16 billion.¹⁰ These expenses include network and processing costs, personnel, and depreciation of technology and equipment. These expenses accounted for roughly 44 percent of Visa's \$40.0 billion in revenue.¹¹ Mastercard similarly reported \$13.9 billion in operating expenses in 2025.¹² This amount represented approximately 42.8 percent of its \$32.8 billion in revenue.¹³

Issuing banks and credit unions likewise incur substantial payment-system costs. According to Federal Reserve data, US debit and prepaid card networks processed more than 100.7 billion transactions in 2023, while covered issuers incurred average authorization, clearing, and settlement costs of approximately 4.1 cents per transaction.¹⁴ These figures imply issuer processing costs alone exceeded \$4 billion annually, excluding additional expenditures related to fraud prevention, cybersecurity, customer servicing, rewards programs, and regulatory compliance.

Without these fees, payment networks and the banks and credit unions that issue credit and debit cards would have reduced resources to invest in fraud prevention, system reliability, and real-time transaction processing. Over time, a no-fee setup could weaken security, slow processing, and reduce the availability of electronic payment services.

The IFPA would upend the current pricing structure by intervening in a system designed to balance incentives across a two-sided market, with wide-ranging ripple effects across consumers, banks, merchants, and payment networks.

Capping fees raises costs for consumers

While the mechanics of interchange fees help explain how the system functions, their real-world effects are best illustrated by the closest available US case study: the Durbin Amendment.

The Durbin Amendment, enacted as part of the Dodd-Frank Act in 2010, imposed a regulatory cap on debit card interchange fees charged by large financial institutions. It directly limited the per-transaction fees that merchants' banks pay to card-issuing banks when debit cards are used.¹⁵

The Durbin Amendment's fee cap created a \$6.5 billion reduction in annual bank revenue.¹⁶ Banks did not simply absorb the costs. They still needed to cover costs for fraud prevention, compliance, network participation, and

⁸ International Center for Law & Economics, *Issue Spotlight: Two-Sided Markets*, accessed May 29, 2026, <https://laweconcenter.org/spotlights/two-sided-markets>.

⁹ David S. Evans and Richard Schmalensee, "The Industrial Organization of Markets with Two-Sided Platforms," NBER *Working Paper* No. 11603, (National Bureau of Economic Research, 2005), <https://www.nber.org/papers/w11603>.

¹⁰ Visa Inc., *Annual Report for Fiscal Year Ending September 30, 2025*, p. 47, https://s29.q4cdn.com/385744025/files/doc_downloads/2025/Visa-Fiscal-2025-Annual-Report.pdf.

¹¹ Visa Inc., *Annual Report for Fiscal Year Ending September 30, 2025*, p. 40, https://s29.q4cdn.com/385744025/files/doc_downloads/2025/Visa-Fiscal-2025-Annual-Report.pdf.

¹² Mastercard Inc., *Form 10-K Annual Report for the Fiscal Year Ended December 31, 2025*, p. 57, <https://d18rn0p25nwr6d.cloudfront.net/CIK-0001141391/afc5249c-8dc2-4faa-8680-ca89c93703bb.pdf>.

¹³ Mastercard Inc., *Form 10-K Annual Report for the Fiscal Year Ended December 31, 2025*, p. 49, <https://d18rn0p25nwr6d.cloudfront.net/CIK-0001141391/afc5249c-8dc2-4faa-8680-ca89c93703bb.pdf>.

¹⁴ Board of Governors of the Federal Reserve System, "2023 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions," accessed May 29, 2026, <https://www.federalreserve.gov/paymentsystems/2023-interchange-fee.htm>.

¹⁵ Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 1075, 124 Stat. 2068 (2010), <https://www.govinfo.gov/content/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf>.

¹⁶ Vladimir Mukharlyamov and Natasha Sarin, *The Impact of the Durbin Amendment on Banks, Merchants, and Consumers*, University of Pennsylvania Law School, January 2019, https://www.law.nyu.edu/sites/default/files/Mukharlyamov_Sarin_2.4.2019_0.pdf.

customer service.¹⁷ As a result, banks adopted various strategies to offset the lost revenue.

A University of Pennsylvania study reports that banks responded to the fee cap by reducing the availability of free checking accounts. Among banks subject to the cap, the share offering free checking fell from roughly 60 percent before implementation to about 20 percent afterward.¹⁸ The study also found that banks nearly doubled monthly fees to make up for lost interchange revenue.¹⁹

In a similar vein, researchers at George Mason University identified several major effects. They found that minimum balance thresholds for no-fee checking accounts tripled, monthly fees on fee-based accounts doubled within a few years, consumer rewards programs were reduced or eliminated, and as many as 1 million consumers lost access to bank accounts.²⁰

Meanwhile, most consumers did not see savings passed on to them. Survey data from the Federal Reserve Bank of Richmond showed that only 1 percent of merchants lowered prices. Seventy-seven percent of merchants made no pricing changes, while 22 percent of merchants raised their prices.²¹ The Progressive Policy Institute similarly concluded that the policy did not produce meaningful price reductions for consumers.²²

The burden of these changes was not evenly distributed. Low-income consumers were particularly vulnerable to higher account fees, stricter minimum balance requirements, and the loss of free checking because they generally have less financial flexibility and smaller account balances than high-income households.

One study found that debit-card usage among low-income consumers fell by 0.8 percentage points after the Durbin

Amendment took effect, while cash usage increased by 0.7 percentage points.²³ Researchers also found evidence that some banks reduced debit-card issuance to low-income and unbanked consumers.²⁴ These findings suggest that the regulation may have reduced access to banking services for economically vulnerable households.

Regarding overall consumer welfare, early economic forecasts predicted that the Durbin Amendment would create a consumer welfare loss, measured in present discounted value, of between \$22 billion and \$25 billion.²⁵ More than a decade of research suggests that the promised consumer benefits of the Durbin Amendment never materialized.

Building on the empirical record from the Durbin Amendment, recent analysis has attempted to quantify the economic effects of extending similar interchange fee restrictions at the state level. The Common Sense Institute (CSI) modeled the potential impact of a Colorado IFPA-style policy that would restrict interchange fees applied to both the tax and tip portions of credit and debit card transactions.²⁶ The CSI findings suggest substantial economic costs associated with an IFPA-style policy.

CSI estimates that such a policy would reduce Colorado's annual state GDP by approximately \$1.43 billion by the fifth year, cut annual personal income by more than \$1.1 billion, and eliminate roughly 8,800 jobs relative to baseline projections. These losses occur alongside estimated merchant savings of about \$110.5 million annually, or approximately \$635 million over five years. In other words, the projected aggregate economic costs of this policy significantly outweigh projected merchant gains.

Oxford Economics similarly analyzed the Credit Card Competition Act (CCCA) by modeling the effects of a scenario in which interchange revenue falls by 100-basis

¹⁷ Steve Swedberg, "Let's Resolve to Repeal Durbin's Debit Card Interchange Price Controls in 2026," Competitive Enterprise Institute, December 30, 2025, <https://cei.org/blog/lets-resolve-to-repeal-durbins-debit-card-interchange-price-controls-in-2026>.

¹⁸ Mukharlyamov and Sarin, *The Impact of the Durbin Amendment on Banks, Merchants, and Consumers*, p. 21.

¹⁹ Mukharlyamov and Sarin, *The Impact of the Durbin Amendment on Banks, Merchants, and Consumers*, p. 33.

²⁰ Todd J. Zywicki, Geoffrey A. Manne, and Julian Morris, "Price Controls on Payment Card Interchange Fees: The U.S. Experience," George Mason University Law & Economics, *Research Paper Series* No. 14-18, June 1, 2014, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2446080.

²¹ Renee Haltom and Zhu Wang, "Did the Durbin Amendment Reduce Merchant Costs? Evidence from Survey Results," Federal Reserve Bank of Richmond, *Economic Brief* No. 15-12, December 2015, p. 3, https://www.richmondfed.org/-/media/RichmondFedOrg/publications/research/economic_brief/2015/pdf/eb_15-12.pdf.

²² Robert J. Shapiro and Jerome Davis, *The Unanticipated Costs and Consequences of Federal Reserve Regulation of Debit Card Interchange Fees* (Progressive Policy Institute, December 11, 2015), p. 15, <https://www.progressivepolicy.org/the-unanticipated-costs-and-consequences-of-federal-reserve-regulation-of-debit-card-interchange-fees>.

²³ Benjamin Kay, et al., "Competition and Complementarities in Retail Banking: Evidence from Debit Card Interchange Regulation," *Journal of Financial Intermediation*, Vol. 34, pp. 91-108, April 2018, <https://www.sciencedirect.com/science/article/abs/pii/S1042957318300184>.

²⁴ Ronald Bird, "The Durbin Amendment: A Short Regulatory History," *Regulation* 47, No. 1 (Spring 2024), <https://www.cato.org/regulation/spring-2024/durbin-amendment-short-regulatory-history>.

²⁵ David S. Evans, Howard H. Chang & Steven Joyce, "The Impact of the U.S. Debit Card Interchange Fee Caps on Consumer Welfare: An Event Study Analysis," Coase-Sandor Institute for Law & Economics *Working Paper* No. 658, 2013, https://chicagounbound.uchicago.edu/law_and_economics/652.

²⁶ Zachary Milne, *The Economic Impact of State Restrictions on Interchange Fees* (Common Sense Institute, January 29, 2025), <https://www.commonsenseinstitute.org/colorado/research/taxes-and-fees/the-economic-impact-of-state-restrictions-on-interchange-fees>.

points, or about 1 percent.²⁷ While national in scope and structurally different from the IFPA, the CCCA similarly constrains interchange fee revenue.

The analysis estimates a \$227 billion reduction in annual US GDP and approximately 156,000 job losses. Oxford Economics' work reinforces the broader point that even partial constraints on interchange revenue can produce significant macroeconomic effects.

The combined evidence from the Durbin Amendment and more recent economic modeling indicates that interchange fee restrictions do not consistently deliver net benefits to consumers. Instead, the effects consistently manifest as higher account fees, reduced rewards, and limited or nonexistent price reductions, resulting in a net loss in consumer welfare.

How banks and credit unions pay the price

The IFPA would materially affect financial institutions across Illinois, particularly community banks and credit unions that lack large-scale compliance infrastructure. Card payment networks generally do not process itemized breakdowns of taxes and gratuities. Instead, they process transactions as single aggregate amounts.

In the absence of structured transaction data flowing through card networks, efforts to exclude taxes and gratuities would likely require post-transaction reconciliation and rebate processes instead of real-time adjustments.²⁸ This structural constraint effectively puts additional operational complexity onto both financial institutions and the very merchants who are the supposed beneficiaries of the IFPA.

Merchants would continue paying interchange fees on the full transaction upfront because fees are embedded in the payment flow and deducted automatically.²⁹ Later, merchants could seek reimbursement for interchange fees assessed on the tax and gratuity portions of transactions through a post-transaction rebate process involving financial institutions and payment processors.

This setup would require merchants to generate detailed transaction records, submit claims to processors or financial institutions, and complete verification procedures before any rebate is issued.

Meanwhile, processors and banks would need to audit submissions and issue refunds through exception-based processes similar to those used when automated systems cannot accommodate a transaction.³⁰

The added friction of data submission, verification, and delayed reimbursement would introduce new operational costs and timing mismatches, particularly for smaller financial institutions with limited compliance infrastructure.

Compounding this compliance burden is the IFPA's \$1,000 penalty for each noncompliant transaction,³¹ which could transform otherwise manageable administrative errors into significant financial liabilities. In a system dependent on manual or semi-manual rebate processes, a single systemic glitch (e.g., misclassification of tax amounts, failed batch reconciliation) could affect thousands of transactions simultaneously.³²

For community banks and credit unions with limited capital buffers, these risks could be especially severe. A single systems failure could trigger penalties totaling millions of dollars. Such a failure could mean having little choice but to cease participating in card networks or to close their doors.³³

Big Retail wins, but small businesses pay

At first glance, the IFPA appears to be a straightforward victory for merchants. Restricting interchange fees on the portions of debit and credit card transactions attributable to state and local sales taxes and tips would reduce merchants' payment acceptance costs.

Yet the Durbin Amendment presents a more complicated story with a counterintuitive outcome: merchant-backed payment regulation can generate uneven gains that leave many businesses no better off—and some worse off—once secondary effects are taken into account.

²⁷ Oxford Economics, *Impact of the Credit Card Competition Act on the U.S. Economy*, commissioned by the Electronic Payments Coalition, January 2025, p. 2, https://electronicpaymentscoalition.org/wp-content/uploads/2025/01/Impact-of-the-Credit-Card-Competition-Act_EPC_Oxford-Economics_January-2025.pdf.

²⁸ Sumati Mehta, "How Settlement Processing Delivers the Financial Precision Card Programs Need to Close Faster and Scale Further," Litchic, Inc., March 9, 2026, <https://www.lithic.com/blog/what-is-settlement-processing>.

²⁹ LegalClarity, "Who Pays Interchange Fees? Merchants, Banks, or Consumers?" February 26, 2026, <https://legalclarity.org/who-pays-interchange-fees-merchants-banks-or-consumers>.

³⁰ Internal Revenue Service, *Internal Revenue Manual*, pt. 21 (Customer Account Services), ch. 4: (Refund Inquiries), sec. 21.4.4, "Manual Refunds," last modified October 1, 2025, https://www.irs.gov/irm/part21/irm_21-004-004r.

³¹ Interchange Fee Prohibition Act, 815 Ill. Comp. Stat. 151/150-15(a) (2024).

³² LegalClarity, "How to Process and Account for a Batch Refund," accessed May 29, 2026, <https://legalclarity.org/how-to-process-and-account-for-a-batch-refund>.

³³ Woodstock Institute, "Comment Letter: Implementation of the Illinois Interchange Fee Prohibition Act," March 10, 2026, <https://woodstockinst.org/financial-services/comment-letter-implementation-of-the-illinois-interchange-fee-prohibition-act>.

Research by the Federal Reserve Bank of Richmond found that the policy produced “limited and unequal effects on merchants.”³⁴ Averaging across sectors, only 11.1 percent of merchants experienced lower debit costs, while 31.3 percent saw increases and 57.6 percent saw no change. The dispersion is even more pronounced for small-ticket transactions—those of \$10 or less. For these transactions, 2.8 percent of merchants saw cost reductions, compared to 31.8 percent experiencing increases and 65.4 percent seeing no change.³⁵

Prior to the Durbin Amendment, payment networks commonly offered discounted interchange rates for low-dollar transactions. Many of these pricing structures disappeared after the fee cap took effect. As a result, some small-ticket merchants faced higher effective payment costs, which in turn encouraged the development of alternative payment arrangements designed to bypass the new pricing constraints.³⁶

The Durbin Amendment’s effects varied primarily with transaction composition, particularly the share of small-ticket versus large-ticket purchases. The IFPA layers on a second dimension of variation: merchants’ ability to comply with and operationalize granular transaction reporting requirements for taxes and tips.

Modern point-of-sale systems widely support tax calculation, gratuity capture, and transaction-level reporting. *However, the payments infrastructure does not standardize the identification, transmission, and interchange-level exclusion of taxes and gratuities.*³⁷ As a result, compliance depends on the degree to which existing payment systems can reliably distinguish and carry transaction-level data through the payment flow.

According to the multinational professional services firm PwC, compliance with the IFPA would require “substantial changes to the existing data infrastructure used by merchants, issuers, and payment card networks,” including coordination across merchants, processors, and card networks, as well as reconciliation of transaction components after settlement.³⁸

These requirements would be particularly burdensome for high-volume small businesses. For example, a bar or

tavern processing hundreds or thousands of transactions after a major sporting event could be required to reconstruct itemized tax and gratuity components across all sales and submit post-transaction rebate claims, thereby adding significant administrative workload long after the point of sale.

Large retailers with fully integrated payment ecosystems are positioned to implement these changes through existing infrastructure, while smaller merchants face higher relative costs from upgrades, middleware, or operational workarounds.³⁹ Consequently, even when aggregate savings are projected, realized benefits are likely to be skewed toward larger firms with the capacity to implement the required system changes at scale.

Empirical estimates of the Illinois law’s effects support this prediction, finding that the top 10 retailers would capture 21.4 percent of the interchange reductions.⁴⁰ Meanwhile, retailers outside of the top 40 will receive an average of \$56 in gross interchange savings.⁴¹

In effect, the IFPA does not function as a broad merchant subsidy. It produces a highly skewed distribution in which large, technologically sophisticated retailers capture the overwhelming share of net benefits.

Meanwhile, many small businesses receive only modest gross interchange reductions under the statutory allocation. These meager gains are likely insufficient to offset the fixed costs of compliance, including payment system upgrades, middleware integration, and operational adjustments required under the IFPA.

How one state can upend the national payment system

Another concern is that the IFPA risks undermining the uniformity of the national payments system by introducing a fragmented, state-by-state regulatory structure. The US card payments system has long operated under nationally standardized rules governing interchange fees and transaction processing. This uniformity allows a card issued by a financial institution in one state to be used seamlessly at a merchant in another,

³⁴ Haltom and Wang, *Did the Durbin Amendment Reduce Merchant Costs?* p. 1.

³⁵ Haltom and Wang, *Did the Durbin Amendment Reduce Merchant Costs?* p. 3.

³⁶ Zywicki, Manne, and Morris, “Price Controls on Payment Card Interchange Fees: The U.S. Experience.”

³⁷ *Illinois Bankers Association v. Raoul*, No. 1:24-cv-07307, 2026 WL 371196, at *1 (N.D. Ill. Feb. 10, 2026), <https://law.justia.com/cases/federal/district-courts/illinois/ilndce/1:2024cv07307/463030/179>.

³⁸ PricewaterhouseCoopers LLP, “Federal Court Upholds Illinois Interchange Fee Ban on State and Local Tax and Gratuities, Enjoins Data Use Restrictions,” *State and Local Tax Insights*, February 2026, <https://www.pwc.com/us/en/state-local-tax/newsletters/salt-insights/assets/pwc-federal-court-upholds-illinois-interchange-fee-ban%20on-state-tax.pdf>.

³⁹ Julian Morris and Ben Sperry, *Regulating State Interchange Fees: Evaluating the Likely Effects of the IFPA* (International Center for Law & Economics, July 7, 2025), <https://laweconcenter.org/resources/regulating-state-interchange-fees-evaluating-the-likely-effects-of-the-ifpa>.

⁴⁰ Electronic Payments Coalition, *New Illinois Law Creates Windfall for Largest Corporate Mega-Stores, Bear Costs on Small Businesses*, October 2024, p. 2, <https://electronicpaymentscoalition.org/wp-content/uploads/2024/10/Illinois-State-Sales-Tax-Interchange-Report-9.24.24-1.pdf>.

⁴¹ Electronic Payments Coalition, *New Illinois Law Creates Windfall for Largest Corporate Mega-Stores, Bear Costs on Small Businesses*, p. 3.

without any need for transaction-level legal or technical differentiation.⁴²

This national consistency reflects the fact that card payments function as an integrated interstate infrastructure instead of a collection of discrete local markets. Federalist principles favor decentralized regulation on the theory that states can tailor rules to local conditions and experiment with policy innovation. But that logic applies only when the regulated activity is located entirely within one state.⁴³

Payment systems, by contrast, are designed to operate across jurisdictions through unified network rules and infrastructure.⁴⁴ A transaction initiated in Illinois may be authorized by a bank in another state, routed through a network operating nationally, and settled across jurisdictions in real time. In such a system, state-by-state variation does not remain isolated. It must be translated into system-wide rules embedded in the network's core infrastructure.⁴⁵

The IFPA disrupts this uniform framework by imposing Illinois-specific requirements on interchange fees and transaction processing. Because national card networks cannot segment their infrastructure along state lines without fundamentally redesigning their systems, compliance with the IFPA requires embedding Illinois-specific logic into nationwide transaction processing.

This discord introduces significant operational complexity, as financial institutions must distinguish Illinois transactions from all others in real time and adjust authorization, pricing, and routing accordingly. The International Center for Law & Economics (ICLE) sorts these compliance costs into four categories:

- **Transaction-data requirements** must be expanded so merchants can separately identify and transmit tax and gratuity components at the point of sale.
- **Network and issuer-system modifications** are required to reprogram authorization and settlement systems to apply Illinois-specific rules within otherwise uniform processing flows.

- **Rebate mechanisms** may be necessary when tax or tip data are missing or misclassified, which introduces post-transaction adjustments into a system designed for real-time finality.
- **Error-handling and dispute processes** become more complex as classification mismatches require reconciliation among merchants, issuers, and the network.⁴⁶

While these costs are substantial for Illinois alone, they represent only the baseline for a broader regulatory patchwork. If other states follow suit, financial institutions would be forced to maintain dozens of jurisdiction-specific logic gates within a single authorization flow.⁴⁷ Colorado's SB26-134 could have become the second state law that imposes state-specific requirements on the payments infrastructure. This bill passed the Colorado General Assembly.⁴⁸ However, Colorado Governor Jared Polis vetoed the bill in June 2026.⁴⁹

This multi-state fragmentation would transform the national payments system from a unified processing infrastructure into a patchwork of localized compliance regimes, each with different tax-calculation and fee-rebate protocols.

Taken together, these adjustments are structural changes to the operating logic of the payments system. ICLE emphasizes that such modifications necessarily extend beyond Illinois transactions because national networks cannot segment core infrastructure without embedding jurisdiction-specific logic into shared systems. The result is that one state rule becomes a system-wide constraint, and each additional state adopting similar requirements layers further complexity onto the same shared infrastructure.

This prospect raises a broader federalism issue. State experimentation can work only when the objects regulated are within state boundaries. In payments, no such boundaries exist in operational terms. Every transaction is routed through national infrastructure that depends on uniformity to function efficiently. State-by-state divergence therefore produces fragmentation within a single system.

⁴² Board of Governors of the Federal Reserve System, *The Federal Reserve Payments Study: 2018 Annual Supplement*, December 2018, <https://www.federalreserve.gov/paymentsystems/2018-December-The-Federal-Reserve-Payments-Study.htm>.

⁴³ Michael S. Greve, *Federalism and the Constitution: Competition versus Cartels* (Mercatus Center at George Mason University, 2015), <https://www.mercatus.org/research/books/federalism-and-constitution-competition-versus-cartels>.

⁴⁴ Board of Governors of the Federal Reserve System, "Debit Card Interchange Fees and Routing," Notice of Proposed Rulemaking, *Federal Register* 88, no. 218 (November 14, 2023), pp. 78100–78142, <https://www.federalregister.gov/documents/2023/11/14/2023-24034/debit-card-interchange-fees-and-routing>.

⁴⁵ Dan Awrey, "Unbundling Banking, Money, and Payments," *ECGI Law Working Paper Series* no. 565/2021, February 5, 2021, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3776739.

⁴⁶ Morris and Sperry, *Regulating State Interchange Fees: Evaluating the Likely Effects of the IFPA*.

⁴⁷ Morris and Sperry, *Regulating State Interchange Fees: Evaluating the Likely Effects of the IFPA*.

⁴⁸ Colorado General Assembly, Senate, *Payment Card Networks' Fees*, SB 26-134, 75th General Assembly, 2nd Regular Session, 2026, <https://leg.colorado.gov/bills/sb26-134>.

⁴⁹ Office of the Governor of Colorado, "Governor Polis Takes Action on Bills," June 3, 2026, <https://governorsoffice.colorado.gov/governor/news/governor-polis-takes-action-bills-2>.

Federal regulators have expressed related concerns. The Office of the Comptroller of the Currency (OCC) has cautioned that state interference in payment systems risks creating a “complex, potentially unworkable, and destabilizing standard for national banks.”⁵⁰ The OCC has also concluded that the IFPA is preempted as applied to federally chartered national banks and federal savings associations.⁵¹

The OCC found in its final ruling that the IFPA’s restrictions impermissibly interfere with national banks’ ability to exercise their core powers, including the pricing and receipt of compensation for banking services.⁵² Meanwhile, industry groups emphasize that uniform standards are essential to maintaining operational coherence across interstate banking systems.⁵³

Credit unions face a parallel regulatory posture under federal law. The National Credit Union Administration (NCUA) recently adopted an interim final rule clarifying that federally chartered credit unions may assess and receive interchange fees and expressly stated that the rule is intended to preempt application of the IFPA to federal credit unions.⁵⁴ This motion reflects a legal principle of preemption similar to the OCC’s stance on nationally chartered banks.

Operationally, this preemption gap creates a bifurcated compliance environment in which federally chartered credit unions are insulated from IFPA requirements while state-chartered institutions remain subject to Illinois-specific compliance obligations unless similarly preempted under state or federal authority.⁵⁵

This divergence could place state-chartered credit unions at a competitive disadvantage relative to both national banks and federally chartered credit unions, particularly in payments-linked services where interchange revenue helps subsidize rewards programs, fraud prevention, and low-fee account offerings.

The broader implication is that some systems require uniform governance as a condition of functionality. The

IFPA highlights how state-level regulation, when applied to nationally integrated infrastructure, can unintentionally reshape a single, coherent system into a fragmented, more complex one.

The legal limits of localized payment control

The systemic consequences described in the previous section underscore the constitutional concerns with the IFPA. Under the Supremacy Clause and the National Bank Act, and later codified under the Dodd–Frank Act,⁵⁶ state laws are preempted where they “prevent or significantly interfere” with national bank powers.⁵⁷

The controlling doctrinal standard for evaluating state interference with federally authorized banking powers is *Barnett Bank of Marion County v. Nelson*.⁵⁸ Under *Barnett Bank*, a state law is invalid if it significantly interferes with a national bank’s exercise of its federally authorized powers. Because the IFPA limits the national bank’s authority to exercise its incidental powers “necessary to carry on the business of banking” it falls within the scope of interference described in *Barnett Bank*.

The IFPA requires that banks and payment networks distinguish Illinois transactions in real time, adjust processing logic, and modify settlement systems. Collectively, these requirements impose more than an incidental burden on the exercise of federally authorized banking powers. This mandate prevents national banks from “effectively and efficiently” participating in payment networks.

In this vein, the OCC applied the *Barnett Bank* standard and concluded in April that federal law preempts the IFPA for national banks chartered by the OCC because the Illinois law interferes with the receipt of compensation for banking services, which is a core national bank function.⁵⁹

The IFPA also raises substantial concerns under the Constitution’s Dormant Commerce Clause. The doctrine is a judicially inferred limitation derived from the

⁵⁰ Office of the Comptroller of the Currency (OCC), “OCC Issues Two Interim Final Actions Clarifying Bank Powers under Federal Law and the Preemption of a Related State Law,” April 24, 2026, <https://www.occ.gov/news-issuances/news-releases/2026/nr-occ-2026-32.html>.

⁵¹ Office of the Comptroller of the Currency, “Order Preempting the Illinois Interchange Fee Prohibition Act,” *Federal Register* 91, no. 82 (April 29, 2026), pp. 23150–23158, <https://www.federalregister.gov/documents/2026/04/29/2026-08341/order-preempting-the-illinois-interchange-fee-prohibition-act>.

⁵² Office of the Comptroller of the Currency, “Order Preempting the Illinois Interchange Fee Prohibition Act,” p. 2315.

⁵³ Hugh Carney, “National Bank Preemption and the Integrity of the U.S. Payments System,” *ABA Banking Journal*, March 20, 2026, <https://bankingjournal.aba.com/2026/03/national-bank-preemption-and-the-integrity-of-the-u-s-payments-system>.

⁵⁴ Office of Information and Regulatory Affairs, Office of Management and Budget, “Preemption – Federal Credit Union Non-Interest Charges and Fees,” Executive Order 12866 Regulatory Review, RIN 3133-AG11, RRID 1387162, last modified May 18, 2026, <https://www.federalregister.gov/documents/2026/06/09/2026-11559/preemption-federal-credit-union-non-interest-charges-and-fees>.

⁵⁵ 12 C.F.R. § 700.2; National Credit Union Administration, *Chartering and Field of Membership Manual*, 12 C.F.R. pt. 701, app. B, “Credit Union Chartering Overview,” (2026), Electronic Code of Federal Regulations, <https://www.ecfr.gov/current/title-12/chapter-VII/subchapter-A/part-701/appendix-Appendix%20B%20to%20Part%20701>.

⁵⁶ 12 U.S.C. § 25b(b)(1)(B), <https://www.law.cornell.edu/uscode/text/12/25b>.

⁵⁷ Office of the Comptroller of the Currency, “Order Preempting the Illinois Interchange Fee Prohibition Act.”

⁵⁸ *Barnett Bank of Marion County, v. Nelson*, 517 U.S. 25 (1996), <https://supreme.justia.com/cases/federal/us/517/25>.

⁵⁹ Office of the Comptroller of the Currency, “Order Preempting the Illinois Interchange Fee Prohibition Act.”

Commerce Clause's grant of authority over interstate commerce. Under this doctrine courts have long held that states may not enact laws that unduly burden or discriminate against interstate commerce, even in the absence of federal law on the matter.⁶⁰

By compelling out-of-state financial institutions to redesign payment systems nationwide to accommodate Illinois-specific requirements, the statute implicates the Dormant Commerce Clause as articulated in *Healy v. Beer Institute*.⁶¹

As the Supreme Court explained in *Healy*, the doctrine prohibits state laws that have the practical effect of controlling out-of-state commerce. This type of regulatory overreach imposes precisely the kind of fragmented and duplicative burdens that the Dormant Commerce Clause is intended to prevent.

Additional complications arise under the Riegle–Neal Interstate Banking and Branching Efficiency Act, which guarantees parity between national banks and out-of-state state-chartered banks.⁶² In *Illinois Bankers Association v. Raoul*, the US District Court for the Northern District of Illinois held that Riegle–Neal creates a separate, bank-specific constraint on the statute's reach in addition to traditional federal preemption.⁶³

Industry associations contend that if the IFPA is preempted as applied to national banks but remains enforceable against state-chartered institutions, it creates a structural disparity that undermines the statutory goal of competitive equality in interstate banking markets.⁶⁴

Another problem to note is that a recent decision by the US District Court for the Northern District of Illinois will leave the IFPA's regulatory scheme even more unstable.

The court invalidated the law's data usage limitation on the ground that it “directly constrains” and effectively eliminates core banking functions. Plaintiffs have argued that such partial invalidation, by leaving a fragmented and evolving compliance framework in place, is likely to generate “chaos and confusion” in implementation.⁶⁵

The IFPA's final accounting

The IFPA threatens to harm Illinois families while fragmenting the nation's integrated payment infrastructure. The empirical record indicates that when interchange revenue is curtailed, banks respond by increasing other fees and reducing access to financial services. These costs are disproportionately borne by low-income account holders.

Small credit unions and community banks, which lack the scale to absorb the draconian compliance burdens, face a significant competitive disadvantage and may be forced to scale back payment services or consolidate operations. Furthermore, the IFPA threatens the stability of the entire US payment system by embedding Illinois-specific requirements into nationally integrated infrastructure.

To protect the integrity of the checkout experience and avoid driving financial providers from the Illinois market, the IFPA must be either repealed or overturned.

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⁶⁰ Legal Information Institute, “Dormant Commerce Clause,” Cornell Law School, https://www.law.cornell.edu/wex/dormant_commerce_clause.

⁶¹ *Healy v. Beer Institute*, 491 U.S. 324, 335 (1989) (Blackmun, J.).

⁶² 12 U.S.C. § 1831a(i)1. See also Board of Governors of the Federal Reserve System, *Consumer Compliance Handbook, Section 109: Regulation H—Section 109 of the Riegle–Neal Interstate Banking and Branching Efficiency Act*, last updated November 27, 2017, <https://www.federalreserve.gov/boarddocs/supmanual/cch/sec109.pdf>

⁶³ *Illinois Bankers Association v. Raoul*, (Kendall, V.M.), Memorandum Opinion & Order, <https://storage.courtlistener.com/recap/gov.uscourts.ilnd.463030/gov.uscourts.ilnd.463030.115.0.pdf>.

⁶⁴ American Bankers Association, “ABA Files Opening Brief in Interchange Fee Prohibition Act Appeal,” *ABA Banking Journal*, April 1, 2026, <https://banking-journal.aba.com/2026/04/aba-files-opening-brief-in-interchange-fee-prohibition-act-appeal>.

⁶⁵ Deric Behar et al., “Federal Court Partially Upholds Illinois Law Limiting Interchange Fees,” *JD Supra*, February 19, 2026, <https://www.jdsupra.com/legal-news/federal-court-partially-upholds-5544874>.



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