

AXE THE CARD TAX

Save Consumers and Businesses Money

Battle the Cost of Living Crisis

Unleash Payments Innovation in the UK



WHAT IS THE CARD TAX?

There is a tax associated with accepting card payments in the UK - but not one set by the Government. Instead, the major card schemes set fees that businesses have no choice but to accept.

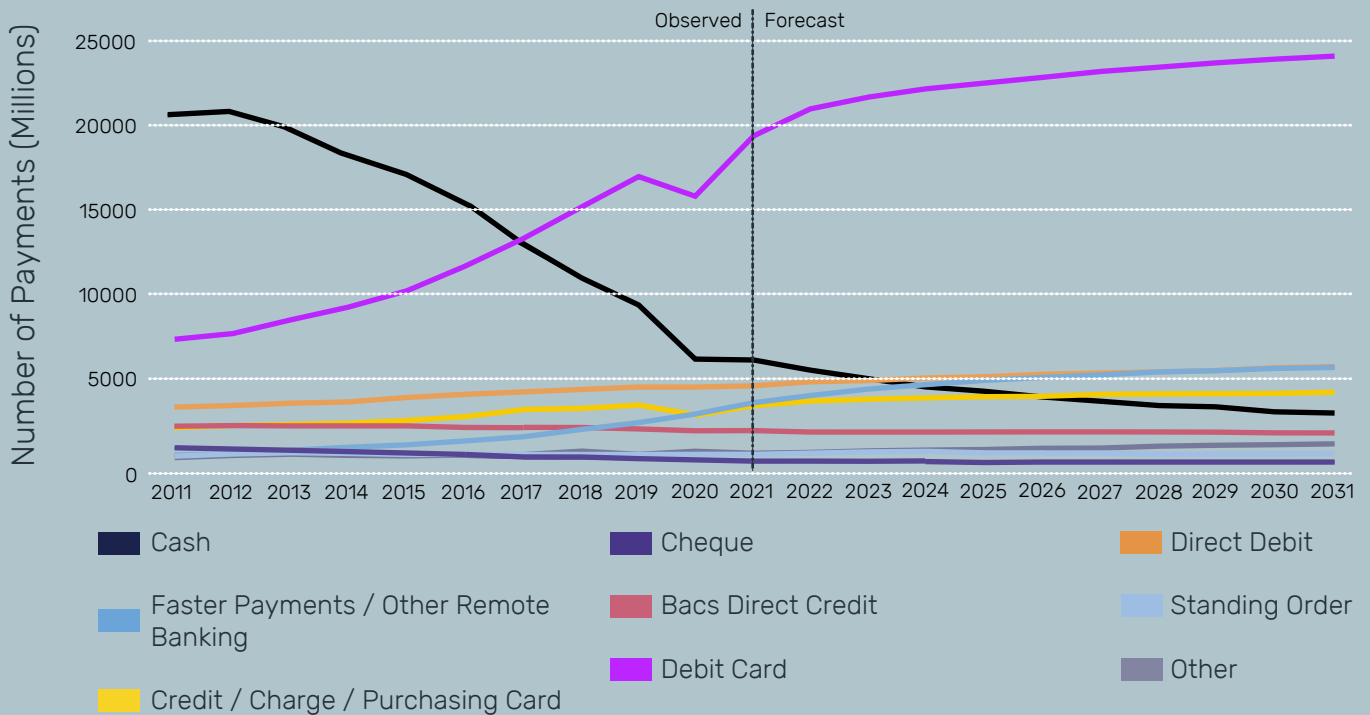
These fees have been rising for years, without any clear reason why. The card payments market is also dominated by a small number of firms, meaning there is limited competitive pressure pushing the fees lower.

"FEES HAVING BEEN RISING FOR YEARS, WITHOUT ANY CLEAR REASON WHY"

WHY DO CARD PAYMENTS MATTER?

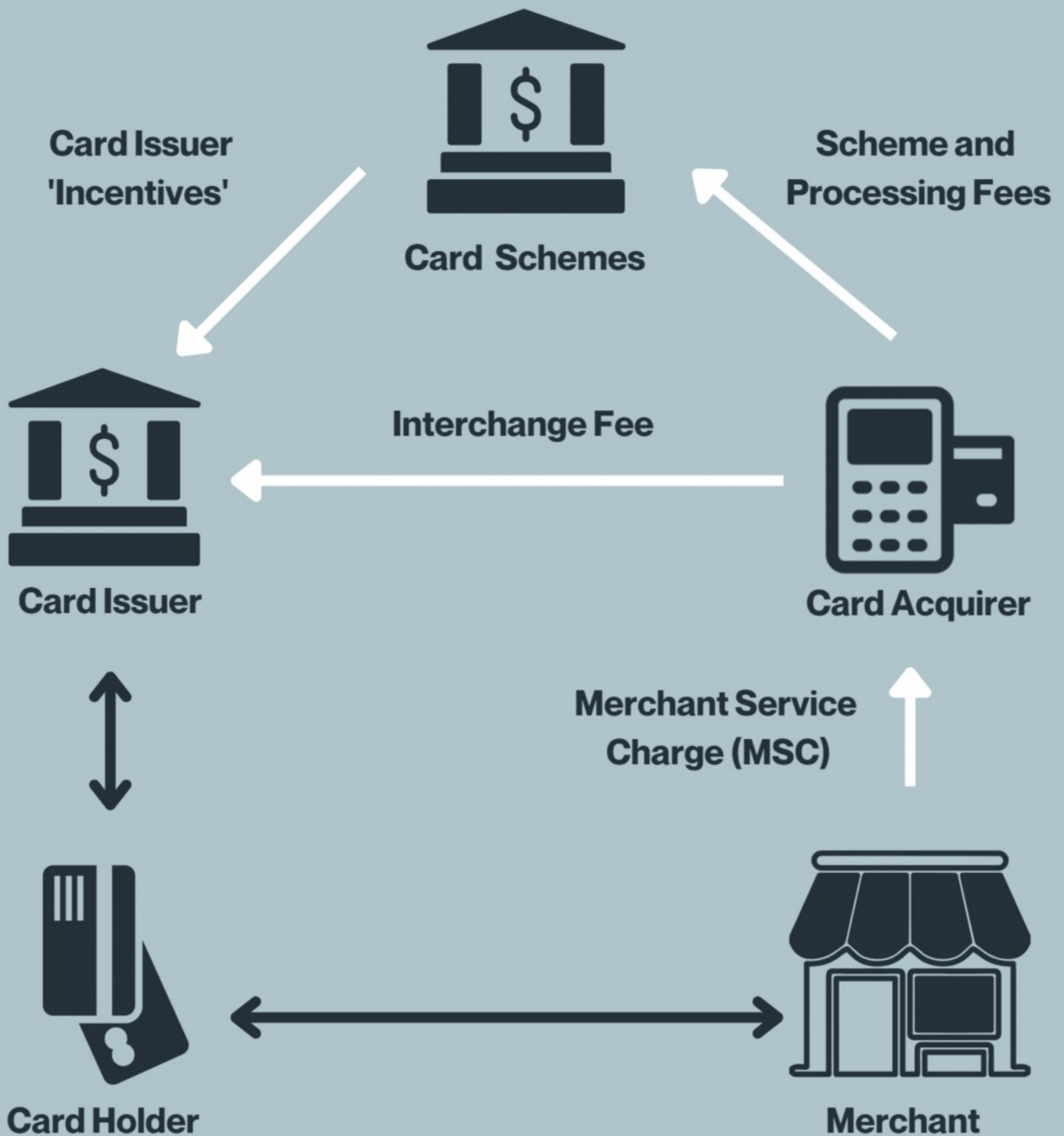
Over two-thirds of retail payments happen on the card networks. As cash payments decline, this will rise even further in the future. For many retailers in the UK, accepting card payments is a cost of doing business. But these costs have been rising.

CARD PAYMENTS ARE INCREASING



Source: UK Finance

WHAT IS THE CURRENT SITUATION?



Retailers pay a Merchant Service Charge (MSC) on every card payment. This consists of three main types of fee: the acquirer fee, interchange fees, and scheme and processing fees. The acquiring margin is the result of competition between the many different UK card acquirers. Interchange fees and scheme and processing fees are the card tax set on top of the acquiring price, decided by the card schemes.

HOW MUCH IS THE CARD TAX?

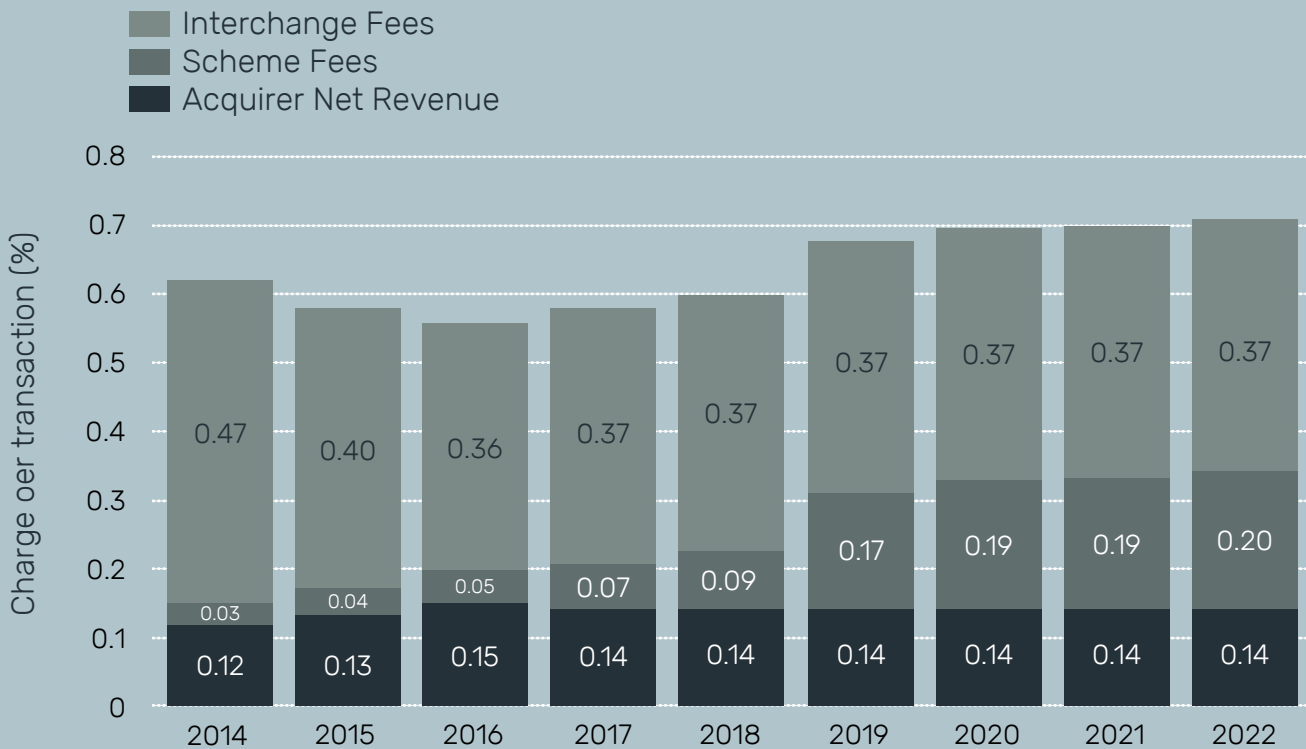
Experts say that since 2016, the card tax has increased by over 40%, despite regulation introduced to cap the interchange fee in 2015. Card scheme and processing fees have increased by up to 600% since 2014. Today, the average cost of a card payment to the retailer can be as high as 0.7% on every card payment. This equates to a £5bn annual card tax paid by businesses.

“CARD SCHEME AND PROCESSING FEES HAVE INCREASED BY UP TO 600% SINCE 2014”

The data behind these stats comes from the PSR Card-acquiring market review final report and BRC/EuroCommerce member data.

There are multiple fees within this charge, which have changed at different rates.

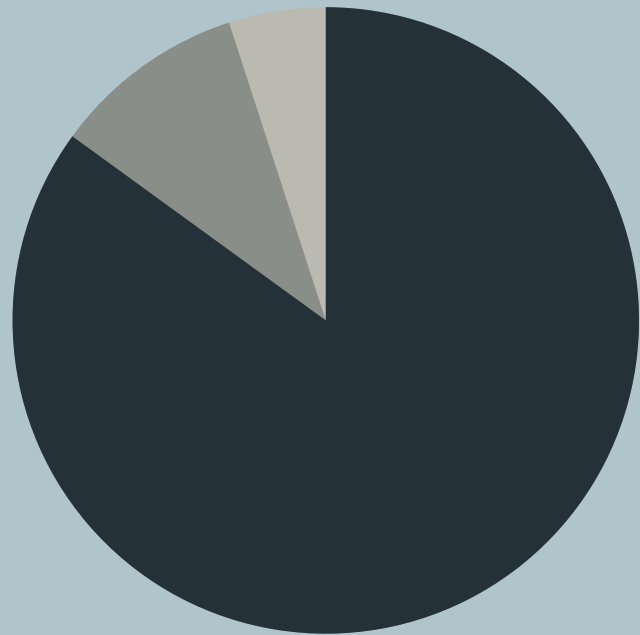
CARD FEES 2014-2022



Since 2015, the shares of the overall charge have changed. With a larger proportion of the fee today determined by the scheme fee, which is charged by and paid to Visa and Mastercard.

CONSTITUTION OF FEES WITHIN THE MSC (PRE IFR)

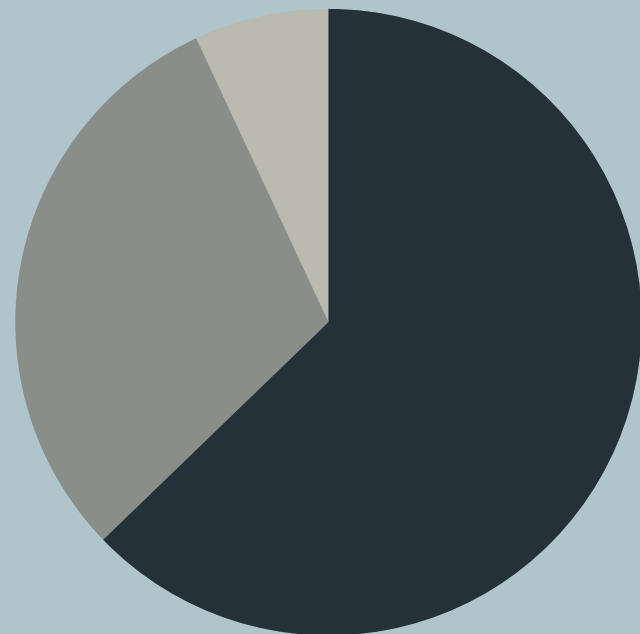
- Acquirer Net Revenue - 5%
- Scheme Fees - 10%
- Interchange Fees - 85%



Source: PSR Card-acquiring Markets Review

CONSTITUTION OF FEES WITHIN THE MSC (POST IFR)

- Acquirer Net Revenue - 7%
- Scheme Fees - 30%
- Interchange Fees - 63%



Source: ACT Estimates

THE EVOLUTION OF THE CARD TAX

The Interchange Fee Regulation, introduced in 2015, was meant to address high card acceptance costs for merchants, capping interchange fees.

At the time, Baron Hill, then Leader of the House of Lords, and Commissioner for Financial Stability and Financial Services said that the Interchange Fee Regulation “is good for consumers [and] good for business... it reduces a 'tax' levied on business by banks in the form of [card] fees, and releases the brakes that have so far held back innovation.”

However, while interchange fees have remained flat since then, scheme and processing fees have increased by up to a whopping 600% since 2014.

WHAT IS THE IMPACT OF THE CARD TAX?

The Card Tax exacerbates the cost of doing business crisis:

- Retailers are currently experiencing unprecedented pressure on razor-thin margins caused by a combination of external crises.
- The rising fees involved with accepting card payments is yet another cost.
- The rising cost of card acceptance disproportionately affects small businesses and reduces competition across the payments sector.

The Card Tax has held back alternatives:

- The adoption of interbank, or open banking account to account, payments has been slowed by the imbalanced playing field in the sector.
- The high card payments costs translate into significant issuing bank incentives to maintain the status quo rather than investing in alternatives like open banking.

Addressing card fees will help level the payments playing field:

- These costs weigh heavily on the entire payment acceptance industry and present a high barrier for fintechs entering the sector.
- Addressing the card tax will therefore play a pivotal role in unlocking fintech growth.
- There is a vibrant payments innovation sector ready to deliver innovative, cheaper ways to pay - once a level playing field can be guaranteed.

WHAT IS BEING DONE TODAY?

The Payment Systems Regulator (PSR) is currently reviewing why these fees have risen. This is the latest investigation after a review into the card-acquiring market over the last four years. The PSR will discover that it is the result of a broken market where a small number of firms are dominant.

**"...A BROKEN MARKET
WHERE A SMALL
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ARE DOMINANT"**

WHAT MUST BE DONE?

1

In the short term, the Axe the Card Tax Coalition believes that there should be no further fee rises until the PSR investigations are complete. The post-Brexit cross-border interchange fee rise should also be reversed.

2

The PSR reviews are also insufficient on their own. Consequently, the Axe the Card Tax Coalition calls on the Treasury to initiate its own review of the cost of accepting card payments in the UK.

3

Expedite work to ensure there is certainty for retailers wanting to offer alternative payment methods to cards. This means delivering regulation of alternative providers and setting open banking up for success.

**AXE THE
CARD
TAX**

