

January 25, 2018

Chairman Guy Vander Linden
House Ways and Means Committee
State Capitol
Des Moines, IA 50319
Guy.vanderlinden@legis.iowa.gov

Dear Chairman Vander Linden,

On behalf of our membership, we would like to express opposition to HF 615, which imposes fees on money transmission transactions in the state of Iowa. **If enacted, HF 615 would be harmful to consumers, Iowa businesses, the unbanked and underbanked, law enforcement, and military stationed in Iowa and their spouses.** The Electronic Transactions Association (“ETA”) is the leading international trade association for the payments industry, representing more than 500 companies that offer electronic transaction processing products and services. ETA’s members include financial institutions, payment processors, and licensed money transmitters.

Bill Overview

If implemented, HF 615 would impose a fee on “a money transfer service” originating in Iowa of 1% of the amount of each money transfer service. Money transmitters would be required to collect and remit those fees to the Iowa Department of Revenue. Failure to do so includes significant penalties. Additionally, the bill also includes notice requirements for licensees.

The definition of “money transfer service” includes domestic and international transmission of money by any means including by payment instrument, wire, facsimile, electronic transfer, courier, or otherwise.

Individuals can include a tax credit on state income taxes for fees paid under this bill, so long as they include a valid taxpayer ID and if married, the valid taxpayer ID of their spouse as well.

This bill has a retroactive application date which includes tax years beginning on January 1, 2017. The retroactive compliance date would be extremely challenging to comply with.

The Harmful Effects HF 615

Consumers count on money transmitters for a number of services including, but not limited to, bill payment, online and app-based peer-to-peer transfers, domestic and international remittances, stored value (prepaid) cards, and other devices which can serve as a substitute or supplement for holding funds in a bank checking account. According to the U.S. Treasury’s 2015 National Money Laundering Risk Assessment, over one-quarter of U.S. households use non-bank financial institutions, including

money transmitters. Many consumers use these services as integral parts of their daily lives and additional fees can quickly erode limited funds for consumers. Specifically, many prepaid card providers are required to be licensed as money transmitters for purposes of reloading cards. This bill would have an enormous effect on growing the unbanked and underbanked population in Iowa.

The fee is an obstacle for innovation as well. New and innovative offerings such as mobile based peer-to-peer payment applications are often offered for no cost. These applications are often used to send small amounts of money between consumers. If this bill to pass, the requirement to include a fee would be detrimental to the services offered to consumers.

This bill represents a significant tax on money transfer transactions, which will make these services more expensive and disproportionately harm a segment of the Iowa population which may be less able to absorb added costs. Many consumers who use money transmission services come from modest means and will stretch budgets and cause significant hardship. This fee is likely to add up quickly for those who use international wire services, or peer to peer payment platforms routinely such the families of military who send money to their spouses stationed overseas.

This bill would especially harm non-residents such as members of the military and their spouses who are stationed in Iowa by not offering a mechanism for refund. Military personnel can retain their residence in another state and are not subject to state income taxes of Iowa. As such, those personnel and their spouses who use money transmitters in Iowa to send money would not be eligible for the state income tax credit.

For those Iowa residents who do pay state income taxes and who wish to obtain a refund for the fees required by this bill, the requirement to hold receipts for up to a year is likely to dissuade many consumers from obtaining the refund.

Current Regulatory Framework Is Sufficient

Federal and state law already provide an extensive regulatory framework designed to root-out and stop money laundering as well as document individuals who use money transmitters and ensure those records are preserved for use by law enforcement as necessary. On the federal level, the Bank Secrecy Act, 31 U.S.C. § 5311 *et seq.* and its implementing regulations 31 C.F.R. Chapter X, requires money transmitters to register with the Financial Crimes Enforcement Network (“FinCEN”), and have effective anti-money laundering compliance programs in place including maintaining records of customer identity for certain funds transfers of \$3,000 or more. Additionally, money transmitters must also file Suspicious Activity Reports (“SARs”) with FinCEN for transactions which are conducted or attempted, at or through the money transmitter, and which involves or aggregates funds or assets of \$2,000 or more and the money transmitter knows, suspects, or has reason to suspect that the transaction is suspicious and file Currency Transaction Reports (“CTRs”) for transactions involving more than \$10,000 in cash.

In addition to federal laws, Iowa has a robust state licensing program for money transmitters. Iowa law requires that money transmitter licensees make, keep, and preserve books, accounts, and records for a minimum of three years, enable regulators to view into money transmission transactions conducted by licensees, and enable licensees to work with law enforcement at all levels to help detect and prevent illegal and criminal activities from being facilitated by the use of money transmitters. Combined with the federal requirements, the formal money transmitting licensing system helps track money transmission activity.

If HF 615 were to be enacted, it is possible that many individuals could turn to more informal or unregulated networks which are unmonitored, thereby hampering the efforts of law enforcement to detect and prevent money laundering and terrorist financing.

Conclusion

As the trade association of the payments industry, ETA stands in opposition to HF 615, because, if enacted HF 615 would be harmful to consumers, Iowa businesses, the unbanked and underbanked, law enforcement, and military stationed in Iowa and their spouses. As such, the negative impact greatly dwarfs the benefits, if any, of such a fee.

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We appreciate you taking the time to consider these important issues. If you have any questions or wish to discuss any issues, please contact me or ETA Senior Vice President of Government Affairs, Scott Talbott at Stalbott@electran.org. Thank you for the opportunity to comment on HF 615.

Respectfully submitted,



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Cc: Members of the Iowa Ways and Means Committee
Iowa House Leadership



