# Department of Legislative Services

Maryland General Assembly
2013 Session

## FISCAL AND POLICY NOTE
**Revised**

Senate Bill 1068 (Senator Glassman)
Finance Economic Matters

### Commission to Study the Regulation of Payroll Services

This bill establishes a Commission to Study the Regulation of Payroll Services. The commission must study (1) the function, size, and structure of the payroll services industry operating in the State; (2) the role of the payroll services industry in the tax payment system at the State and federal levels; and (3) the nature, oversight, and regulation of payroll service companies in other jurisdictions, including any licensing, permitting, and bonding requirements. The commission must also make recommendations for regulating payroll service companies in the State, including (1) the best practices for preventing fraud by payroll service companies in the collection and payment of taxes and (2) the feasibility and cost of establishing State licensure or registration of payroll service companies. The Comptroller's Office must provide staff for the commission. The commission must report its findings and recommendations to specified committees of the General Assembly by December 15, 2013.

The bill takes effect June 1, 2013, and terminates June 30, 2014.

## Fiscal Summary

**State Effect:** The requirement to staff the commission and develop the report within a short timeframe may not be absorbable within the existing budgeted resources of the Comptroller's Office. Instead, general fund expenditures may increase minimally in FY 2014 for contractual staff to support the commission and assist in the completion of the required study and report. Any expense reimbursements for commission members are assumed to be minimal and absorbable within existing budgeted resources. Even though the bill takes effect June 1, 2013, it is assumed that State finances are not materially affected until FY 2014 due to anticipated delays in naming members of the commission. Revenues are not affected.

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law:** Maryland does not have license, registration, or bonding requirements for payroll service companies.

**Background:** In general, a payroll service company prepares and issues payroll checks; prepares and files state or federal income withholding tax reports or unemployment insurance contribution reports; and/or collects, holds, and distributes to applicable state and federal tax authorities income withholding taxes or unemployment insurance contributions.

The Department of Legislative Services is unaware of a comprehensive list of payroll service company registration, permit, and/or bonding requirements by state at this time. Multiple states do not regulate payroll service companies; however, some do require payroll service companies to be registered and provide proof of insurance and/or bonding. For example, Maine requires "payroll processors" to register annually with the Superintendent of Consumer Credit Protection within the Department of Professional and Financial Regulation. Each applicant must provide proof of a fidelity bond, employee dishonesty bond, third-party fidelity coverage, or liability insurance. The amount must be *either* an amount two times the highest weekly payroll processed by the applicant in the preceding year *or* $5 million, whichever is less. Similarly, payroll service companies must be registered with the Arizona Department of Revenue, subject to certain penalties for noncompliance.

**State Expenditures:** The Comptroller's Office advises that existing staff resources cannot absorb the additional requirements of the bill. Pursuant to Chapters 261 and 262 (SB 567/HB 563) the Comptroller's Office currently staffs the Communications Tax Reform Commission in conjunction with the State Department of Assessments and Taxation, with a final report due June 30, 2013. Even though the timeframes for the commissions only briefly overlap, the Comptroller's Office has had to divert staff from other priorities to staff that commission. Given the need for those staff to refocus on their regular duties and the short timeframe established for the study and report to be completed, general fund expenditures may increase minimally in fiscal 2014 for contractual staff to assist in these tasks.

## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office; Department of Labor, Licensing, and Regulation; Maine Revised Statutes; Arizona Department of Revenue; Department of Legislative Services

**Fiscal Note History:** First Reader - March 22, 2013
mlm/mcr Revised - Senate Third Reader - April 2, 2013

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