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VIA ELECTRONIC SUBMISSION

March 12, 2025

Delegate Vanessa E. Atterbeary
Chair
House Ways and Means Committee
130 Taylor House Office Building
Annapolis, MD 21401

Delegate Jheanelle K. Wilkins
Vice-Chair
House Ways and Means Committee
131 Taylor House Office Building
Annapolis, MD 21401

Re: House Bill 1554: Sales and Use Tax – Taxable Business Services – Alterations

Dear Chair Atterbeary and Vice-Chair Wilkins:

Temporary and contract staffing firms play a vital role in Maryland's economy. The advantages of temporary work are recognized by workers, businesses, economists, and policymakers. It affords flexibility, training, supplemental income—and a bridge to permanent employment for those out of work or changing jobs.

Maryland HB 1554 amends the state's current definition of taxable service to include, "a permanent or temporary employee or contractor placement, including a service described under NAICS Sector 5613.) (Article – Tax – General 11-101(m)(14)(III), hereafter, collectively referred to as "staffing services."

For the following reasons, we oppose HB 1554's imposition of a state sales tax on staffing services. Such a tax will result in economic and social harm that will far outweigh the benefit that might flow from any increased revenues.

A Sales Tax on Staffing Services is a Tax on Jobs that Will Harm Maryland's Workers and the State's Economy

Staffing firms employ more than 2.5 million temporary and contract workers in the U.S. every week—nearly 13 million annually—in virtually every job category, including industrial labor, office support, health care, information technology, and professional and managerial positions. In 2023, staffing firms employed nearly 215,000 people in Maryland.

In a comprehensive study commissioned by the American Staffing Association to examine the effect of a sales tax on staffing services, sales taxes were found to have a significant negative impact on temporary employment and, because of the resulting "ripple effect," on a state's overall economy.[1] The study found that taxing staffing "effectively raises the cost of labor, which will reduce the demand for temporary services . . . [which], in turn, will reduce total employment and economic activity within the taxing jurisdiction." Moreover, the study observed that a reduction in the demand for staffing services will increase the labor supply, which will cause employee wages to go down.

[1] See "The Economic Impact of Extending State Sales and Use Taxes to the Temporary Help Supply Services Industry," Gerald M. Godshaw, Office of Federal Tax Services, Economic Analysis Group, Arthur Andersen (National Association of Temporary Services, 1993).

The study estimated that for every one percent of tax on staffing services, temporary employment will go down by 2.13 percent, with a corresponding reduction in wages of 0.44 percent. After taking into account that some displaced temporary workers will find permanent jobs, the study *conservatively* estimated that every one percent of tax will result in a 0.8 percent decrease in temporary jobs.

The study also found that a tax on staffing has a significant ripple effect on other industries. Reducing the number of temporary jobs reduces the support services associated with temporary work, such as telephone service and other utilities, which reduces employment in those industries. Fewer temporary jobs also means less spending by those who are no longer working, which will cause declines in other sectors of the economy.

Similar conclusions with respect to the economic effects of a sales tax on staffing services were reached in an independent study by University of Cincinnati economists in 1999.[2]

The job losses that result from taxing staffing services not only reduce expected tax revenue, but also likely reduce income tax and other tax collections throughout the state. Further, the state can expect a likely increase in unemployment insurance payments and other social welfare costs.

The unavoidable conclusion is that a sales tax on staffing services is largely, if not entirely, self-defeating.

A Sales Tax on Staffing Services Hurts Small Businesses in the State and Encourages Inefficient Use of Resources by Large Businesses

Taxes on business services such as staffing place small, locally-owned businesses at a competitive disadvantage. Small businesses often rely on outside firms to provide them with accounting, bookkeeping, secretarial, and other services, many of which are provided by staffing firms. Taxing those services raises the cost of doing business for small companies, since, unlike larger firms, they generally do not have the ability to avoid the tax by hiring in-house staff.

A Sales Tax on Staffing Services Results in "Tax Pyramiding"

When customers of staffing firms absorb sales taxes, this creates an unfair pyramiding of taxes where the final product or service is also likely subject to sales taxation. Such "pyramiding" is harmful to consumers, who effectively are taxed at least twice on the same product.

Imposing a Sales Tax on Staffing Services Places the State at a Competitive Disadvantage with Neighboring States

Because sales taxes exert a significant dampening effect on jobs and overall economic activity, a state that taxes business services will likely find itself at a competitive disadvantage with neighboring states that do not.

[2] See "Sales Taxes on Temporary Employment Services: Economic Considerations," Sourushe Zandvakili and Nicolas Williams, Department of Economics, University of Cincinnati (Sep. 1999).

Conclusion

Imposing a sales tax on staffing services in Maryland would impose serious, and unnecessary, economic burdens on staffing firms that ultimately would hurt their employees. These burdens would instead drive up the cost of staffing services, reduce workforce flexibility, and severely damage an industry that is vital to Maryland's workers and economy.

We respectfully ask that you vote against SB 1045, or in the alternative, strike Article – Tax – General 11-101(m)(14)(III) of the proposed legislation.

Very truly yours,

Toby Malara, Esq.
Vice President, Government Relations
American Staffing Association