Senate Finance Committee
February 5, 2026
Senate Bill 261 – *Maryland Money Transmission Act – Definition of Money Transmitter – Alteration*
POSITION: SUPPORT

The Independent Payroll Providers Association (IPPA) and The Payroll Group (TPG) collectively represent over 300 payroll processors across the United States. Their members consist of small to mid-sized regional payroll companies that provide essential services to Maryland small businesses. On behalf of IPPA and TPG, we submit this letter of **support** for Senate Bill 261.

Senate Bill 261 defines the types of businesses that can be classified as a "money transmitter", and notes that payroll processing services are not to be included in the definition of a "money transmitter" if they are acting as an agent of a payor to provide payroll services to employees on the payor's behalf. This clarification is appropriate and necessary to ensure that Maryland businesses have access to affordable and compliant payroll services.

Payroll processors operate under contractual agreements with employer clients and act as agents of those employers. Employers authorize payroll companies to calculate wages, taxes, and facilitate direct deposits and benefit payments on their behalf. In these instances, the employer's legal obligation to pay wages and taxes does not shift to the payroll processor; it remains with the employer at all times. This is fundamentally different from that of a traditional money transmitter, which typically accepts funds from consumers for delivery to third parties, often without an ongoing contractual or agency relationship. In contrast, payroll processors provide an integrated business service under contract, with the employer retaining responsibility and oversight.

Furthermore, if payroll processing companies are considered traditional money-transmitting companies, many small and mid-sized payroll companies would be subject to significant and overwhelming compliance costs. Money transmitter licensure requires extensive applications, detailed compliance programs, and significant ongoing regulatory costs. Payroll providers would be required to absorb these costs to comply with money transmitter regulations and, in many cases, would have to preemptively apply for licensure in every state. The state of Maryland has 2578 companies under the NAICS code "Accounting, Tax Preparation, Bookkeeping, and Payroll Services." Of these companies, 84% have less than 20 employees. For smaller payroll providers operating on thin margins and serving local businesses, these costs can exceed annual profits. The result would be market consolidation, with many regional providers forced to close or withdraw from Maryland. Small businesses would be left with fewer choices and higher prices.

Studies, including one conducted in Maryland in 2014, have found that exempting payroll processing companies from money transmitter regulations does not significantly affect the reliability and effectiveness of their services. In 2014, Maryland commissioned a study to make recommendations for payroll companies in legislation. The study found no significant benefit to requiring licensure for payroll processing companies and that excessive regulations are not the best way to regulate the industry. Similarly, a 2022 New York study found that requiring payroll processors to obtain licensure would not

be beneficial and could drive small- to mid-sized firms to leave the state because it would be prohibitively expensive.

Senate Bill 261 addresses the reality of the services payroll processing companies provide and takes a practical approach in protecting payroll companies from unnecessary and harmful compliance practices. This clarification does not remove accountability, as payroll processors will remain subject to contractual obligations, banking oversight, tax reporting rules, and general business and consumer protection laws. Instead, the bill prevents a regulatory mismatch that would impose high costs without corresponding benefits.

Maryland is not an outlier in clarifying this issue. Other states have either exempted payroll processing from their money transmission laws or, through legislation, determined that payroll services do not fall within those statutes.

California, Minnesota, North Carolina, New Hampshire, Ohio, South Carolina, Washington, and Wisconsin have enacted explicit exemptions for payroll processing within their money transmission laws. These states exclude companies that deliver wages, remit taxes, and handle employee benefits on behalf of employers from their payroll services relationship.

Colorado, Iowa, Kansas, Missouri, South Dakota, and Virginia use an agency model exemption written into their statutes that exempts payroll processors from money transmission laws, provided that there is a written agreement, and that the payor's legal obligation to pay wages and other payroll amounts is not extinguished if the payroll company fails to remit funds.

States, including Mississippi and Nevada, have addressed this issue by removing payroll processing from the statutory definition of money transmission altogether. Minnesota **and** Iowa initially adopted language that would have covered payroll processors, but later reversed course. Minnesota amended its statute to exclude payroll services, and Iowa issued a moratorium before ultimately adopting a payroll exemption. In New York, regulators concluded after the aforementioned 2022 study that payroll processing should not be regulated as money transmission due to cost burdens and the existence of more appropriate oversight mechanisms, and Oregon has issued no-action guidance stating that payroll services generally do not require a money transmitter license when not offering separate consumer remittance products.

Maryland is one of only six states, including Georgia, Illinois, Nebraska, Tennessee, and Texas, that have adopted laws or regulations that require all payroll processors to obtain money transmitter licenses.

The fact that so many states have adopted the approach requested here reflects the understanding that payroll processing is a business-to-business agency service, not a consumer money transmission service. Senate Bill 261 brings Maryland in line with this well-established national framework while preserving appropriate oversight through existing tax, banking, and contract law protections. IPPA and TPG strongly support Senate Bill 261 because it protects Maryland's small businesses, preserves access to trusted regional payroll providers, and ensures that regulation is properly tailored to the actual risks involved. We respectfully urge a favorable report on Senate Bill 261.

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