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Chair, Finance Committee

Executive Nominations Committee

Joint Committee on Gaming Oversight

Joint Committee on Management
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Spending Affordability Committee

THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

February 5, 2026

Senate Bill 261

Maryland Money Transmission Act – Definition of Money Transmitter – Alteration

Good afternoon, Vice Chair Hayes and Members of the Finance Committee;

Thank you for the opportunity to present SB 261 – Maryland Money Transmission Act – Definition of Money Transmitter – Alteration. This bill amends the Maryland Money Transmission Act to make Maryland consistent with the overwhelming majority of states that do not treat payroll processors as money transmitters. Maryland is one of only a handful of states that categorize payroll processing companies as money transmitters, along with Georgia, Illinois, Nebraska, Tennessee, and Texas.

I am speaking from the perspective of someone who ran a small business for many years and worked with a small payroll company to ensure my employees were paid accurately and on time, and that all necessary payroll taxes and deductions were handled appropriately. These payroll companies are not merely transactional – they provide essential services to Maryland small businesses. They are advisors that assist with wage and hour laws, evolving sick leave and FMLA laws, and much more.

In 2023, the Office of Financial Regulation updated its regulations to state that “money transmission includes a payroll processing service.” Before this amendment, providing payroll services was not considered money transmission under Maryland law. By doing so, small payroll companies became subject to the requirements of the Money Transmission Act – an impractical scenario for payroll companies for both operational and economic reasons.

The cost of compliance with the Money Transmission Act is prohibitively high – the requirements are well beyond the capacity of most small payroll companies to comply. There are costs for licensing fees, multi-state bonding, and audited financials, and more. Compliance is also an operational impracticality. Payroll processors have no control over where their employer customers pay employees, open offices, or do business. The only way for any payroll processor in the US to comply is to proactively register in every state that requires it, which, as previously stated, is prohibitively costly and burdensome.

Small payroll companies report that the cost of compliance for multi-state registration exceeds the gross revenue most small payroll processors generate in a year.

In addition to the impracticalities of compliance, payroll processing differs from the type of activity the Money Transmission Act is intended to regulate.

The MTA is intended to regulate activities involving the transmission of money for monetary value and entities that receive funds or other monetary value from one person and transfer them to another. The entity receiving the money is typically a third party with no relationship to either the sender or the recipient. Examples include services such as PayPal, Venmo, Zelle, Western Union, companies that issue pre-paid cards that hold customer funds, and crypto and digital asset companies like Coinbase.

Payroll processors differ from the companies above because, unlike them, they enter into explicit contracts with consumers. Employees do not bear the risk of loss as a result of a payroll processor's failure. Payroll processors do not present the risks to employers, employees, or tax authorities that traditional money transmitters present to their customers.

Payroll processors are overseen by the banking industry through Nacha, the governing body of the ACH network that processes payroll. The IRS also provides oversight through its mandate reporting requirements.

In the unlikely event that a problem occurs with a payroll processor, the client employer (under existing FLSA laws) must still pay wages and benefits to employees and then seek recovery under the employer's contract with the payroll processor, the employer's own insurance, or the payroll processor's insurance.

The same holds true for government-required payments, such as taxes, for which the employer has 100% visibility into the collection and remittance of funds collected and reported.

Although OFR's regulations subject payroll companies to the MMTA, OFR is not currently enforcing those requirements, further bolstering the justification for this legislation. We have been in communication with OFR about this issue and have coordinated with them in the drafting of this legislation.

This is not the first time Maryland has looked at this issue. In 2014, this body created the "Commission to Study Regulation of Payroll Services." The Commission specifically recommended *against* requiring payroll processors to obtain money transmitter licenses and rejected the need for bonding, licensing, or registration.

For the above-stated reasons, I urge the Committee to put Maryland on par with the 44 other states that treat payroll processors differently from money transmitters. I respectfully request a favorable report for Senate Bill 261.