

**SB0261\_FAV\_IPPA, TPG\_MD Money Transmission Act - D**

Uploaded by: Drew Vetter

Position: FAV



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.

**For more information call:**

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# **SB 261 Testimony.pdf**

Uploaded by: Pamela Beidle

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Chair, Finance Committee

Executive Nominations Committee

Joint Committee on Gaming Oversight

Joint Committee on Management  
of Public Funds

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.

# **Maryland - Money Transmitter Letter from ADP (8.15)**

Uploaded by: Amy Miller

Position: UNF



August 15, 2025

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Betty Yates  
Assistant Director of Licensing  
Commissioner of Financial Regulation  
Betty.yates@maryland.gov

**Re: Support for Requiring Payroll Service Providers to be Licensed as Money Transmitters**

Dear Betty Yates,

I am writing on behalf of ADP to stress our strong support for Maryland’s continued licensing of payroll service providers as money transmitters. ADP is the nation’s largest provider of human capital management solutions supporting, among other things, HR, payroll, and benefits administration. ADP is uniquely positioned to understand the importance of regulating payroll service providers providing money transmitter services. ADP previously engaged with Maryland several years ago to highlight the importance of responsible regulations for payroll service providers as money transmitters, which Maryland agreed with based on the subsequent adoption of COMAR 09.03.14 regulations in 2023.<sup>1</sup>

Similar to ADP’s prior advocacy in support of adoption of money transmitter regulation for payroll service providers, we are advocating once again to ensure the existing regulations, under COMAR 09.03.14, remain in full effect with continued oversight and responsible regulations for payroll service providers as money transmitters. In some states that have adopted money transmitter regulation for payroll service providers, there have been subsequent efforts to remove payroll service providers from the scope of regulation. Exempting payroll service providers creates unnecessary risks for consumers, as evidenced by prior significant instances of fraud in the industry. In addition, if provided an exemption, payroll service providers would become the only industry specifically named as a money transmitter in the Money Transmission Modernization Act (MTMA) that is then exempted from money transmitter regulations – there simply is no rationale for this unwarranted exemption. Adoption of legislation or regulations to remove payroll service provider regulation, ironically, would place the interests of a small set of service providers (who are in need of responsible (and reasonable) oversight) ahead of the interests of the business community and their employees who are served by the payroll industry.

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<sup>1</sup> COMAR 09.03.14 is based on the Money Transmission Modernization Act (MTMA) issued by the Conference of State Bank Supervisors (CSBS). This Money Transmitter model law “aims to replace 50 sets of state-specific money transmitter laws and rules with one single set of nationwide standards and requirements created by state and industry experts.” CSBS, “CSBS Releases Model for the Future of Payments Regulation,” Sept. 9, 2021. Available at <https://www.csbs.org/newsroom/csbs-releases-model-future-payments-regulation>.

To our knowledge, a subset of payroll service providers represents the only group seeking an exemption from this sensible regulatory oversight and framework despite the fact that the MTMA applies broadly to all transmitters – this seems ironic to us. There is no comparable carveout in the statute for any other specified money transmitter, nor is there a clear rationale for treating payroll providers differently. If anything, the trust that small businesses place in their payroll providers should demand greater regulatory scrutiny, not less.

### **How an exemption for payroll service providers could increase fraud risk**

Excluding payroll processing services from the previously adopted COMAR 09.03.14 regulations would create unnecessary and meaningful fraud and consumer protection risk. Even small payroll companies can handle large volumes of funds—wages, taxes, and benefits—on behalf of businesses. Without appropriate and responsible oversight, the risks for mismanagement or theft increase, which could adversely impact both companies and their employees.

There have been multiple cases where payroll providers stole client funds, causing their clients (the businesses responsible for paying the monies) to disburse payroll and benefits funds twice and employees to have their direct deposit paychecks reversed and bank accounts overdrawn. Payroll provider fraud and theft results in workers not being able to pay for their mortgage/rent, bills, groceries, and childcare, particularly for those who may live paycheck to paycheck. For businesses, these cases of fraud are devastating and have prevented employers from paying wages, benefits, and taxes of Maryland, with some impacted companies having to take out lines of credit, lay off workers, and even file for bankruptcy after suffering significant financial losses. Active regulatory oversight helps prevent fraud and protects employers and employees. Recent examples of significant fraud cases throughout the US resulted in hundreds of millions of dollars of losses to small businesses that trusted and relied on payroll service providers to handle their funds and remit payments for payroll, tax, and other obligations. See **Annex I** attached to this letter for examples of payroll service provider fraud cases.

Many small businesses rely on payroll service providers to calculate payroll and keep them informed of important compliance requirements. However, because of their unfamiliarity with these requirements, small businesses are often not aware of the need to conduct a thorough due diligence of a prospective payroll service provider or the best way to accomplish such a review. Because of this, small businesses are uniquely susceptible to fraud by payroll service providers. Payroll service provider fraud and misconduct have a devastating impact on small businesses, since employers remain responsible for paying those taxes to the relevant federal, state, or local tax authorities. The MTMA includes multiple protections that can help prevent this type of financial harm to employers, including the many small businesses who rely on such firms, and to the state itself. Credit checks and criminal background checks required as part of the MTMA licensing process can identify individuals who present a heightened risk of fraud, and the MTMA requirements to maintain specified net worth and liquidity ensure that licensees can cover their financial obligations. The MTMA also provides regulators with authority to conduct examinations of licensees, which can prevent or minimize financial losses.

### **Why regulation is necessary**

The need for clear, consistent regulatory standards to prevent fraud is well-documented (as detailed above). That is why ADP previously advocated for Maryland to adopt the full MTMA, and we supported Maryland's decision to implement this framework in 2023.

Maryland's existing money transmitter regulation includes payroll processing services within the

definition of “money transmission,” a provision that protects Maryland businesses and enables proper and effective oversight and accountability for payroll providers. Money transmitters are companies that receive, hold, and/or send money for customers. Payroll firms that handle client funds clearly fall within this definition. In arguing for an exception, some payroll service providers have maintained that they are already subject to sufficient oversight and regulation. While payroll providers may be subject to other legal requirements, none of those requirements are focused on identifying the risk of payroll provider fraud, misconduct, and misappropriation of funds. To directly address and correct their arguments, we note that:

- While the Internal Revenue Service (IRS) requires payroll providers to be authorized as Reporting Agents to submit payroll taxes, the authorization does not include oversight, regulation, or enforcement of those payments. The IRS currently has an online system<sup>2</sup> that allows employers to confirm that expected payments have been made to the IRS. However, an employer would need to be knowledgeable about IRS filings to know that they can obtain this confirmation. In addition, this level of visibility into tax filings and payments is not available in all states and localities.
- While Know Your Customer (KYC) requirements help financial institutions understand who their client is along with the associated risks of that potential relationship, including from a money laundering and terrorist financing perspective, it will not protect clients and their employees from misappropriation of funds by a fraudulent payroll service provider.
- NACHA rules govern the ACH network that facilitates direct deposits and direct payments, ensuring that electronic payments are “smart, safe and fast.” Although the rules address some mechanisms for the detection and return of potentially fraudulent transactions, they are not designed to identify and affirmatively investigate misappropriation of client payroll funds by a service provider that happens to use the ACH network.

State oversight, as provided under the MTMA, helps prevent financial harm to small businesses who rely on payroll providers to make required tax deposits and tax information filings to federal and state and local governments.

## Conclusion

As the largest provider of payroll and human capital management solutions, ADP takes the responsibility that comes with our industry position seriously. We are committed to protecting the integrity of the payroll industry and the financial security of the businesses and employees our industry serves. This responsibility is why we have consistently supported appropriate regulation, and it is why we continue to take action to ensure that bad actors cannot undermine trust in our industry. Weakening or eliminating money transmitter oversight for payroll providers would open the door to increased risk, and we believe it is incumbent on industry leaders like ADP to speak out and advocate for maintaining strong safeguards.

ADP’s money movement activities are overseen by the federal Office of the Comptroller of the Currency,<sup>3</sup> and based on our experience with such regulatory oversight and understanding of the industry, we are supportive of the MTMA coverage of payroll processing services and oppose any attempts to exempt them from oversight as a money transmitter. Smaller or local payroll providers may raise the burden presented by compliance requirements, however, the MTMA was intentionally designed to provide state regulators with discretion in how licensing standards, fees,

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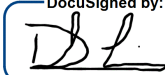
<sup>2</sup> The Electronic Federal Tax Payment System, or EFTPS.

<sup>3</sup> <https://www.occ.gov/topics/charters-and-licensing/interpretations-and-actions/2020/int1167.pdf>.

and requirements are implemented. This flexibility enables states to scale regulatory expectations in a manner that accounts for a business's size, risk profile, and resources – including waiving or adjusting fees for smaller payroll processing services. Preserving MTMA coverage while utilizing these tools strikes the right balance between protecting small business employers and employees, and ensuring regulatory requirements are fair and appropriately tailored across the industry. In any event, any actual or perceived burden on payroll service providers' compliance with reasonable regulations is far outweighed by the risks to employers and employees if there is insufficient regulatory oversight and controls leading to the next payroll provider fraud, causing millions of dollars in damages, putting clients out of business and preventing employees from getting paid on time and in full.

For these reasons, we respectfully urge you to oppose any efforts to exempt payroll service providers from regulation as money transmitters. Thank you for your commitment to protecting Maryland's businesses and for your attention to this important matter.

Sincerely,

DocuSigned by:  
  
88A0D03BEBD44ED...

Daniel R. Lewis

VP, Compliance Programs and Government Affairs

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Cc: The Honorable Wes Moore, Governor of Maryland, via Amanda S. LaForge, Chief Counsel,  
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The Honorable Nancy King, Senate Majority Leader, [Nancy.king@senate.state.md.us](mailto:Nancy.king@senate.state.md.us)  
The Honorable Anthony G. Brown, Attorney General of Maryland, via portal  
The Honorable Dereck E. David, State Treasurer of Maryland,  
[treasurer@treasurer.state.md.us](mailto:treasurer@treasurer.state.md.us)

## Annex I: Payroll Service Provider Fraud Cases

### Florida

- “Payroll Services Company Owner Sentenced to Prison” – April 2025: <https://www.justice.gov/opa/pr/payroll-services-company-owner-sentenced-prison>

### Maryland

- “Payroll Service Company Owners Sentenced to Prison for Stealing Money Set Aside by Clients to Pay Federal and State Taxes” – May 2016: <https://www.justice.gov/usao-md/pr/payroll-service-company-owners-sentenced-prison-stealing-money-set-aside-clients-pay>

### Minnesota

- “Tower Woman Sentenced to Prison for Embezzling Over \$300K From Clients” – February 2025: <https://www.justice.gov/usao-mn/pr/tower-woman-sentenced-prison-embezzling-over-300k-clients>

### Missouri

- “Moresource Owner Pleads Guilty to Defrauding Dozens of Columbia Businesses” – May 2025: [https://www.columbiamissourian.com/news/local/moresource-owner-pleads-guilty-to-defrauding-dozens-of-columbia-businesses/article\\_43030dd8-6dd2-4799-b476-736fd3ed8de4.html](https://www.columbiamissourian.com/news/local/moresource-owner-pleads-guilty-to-defrauding-dozens-of-columbia-businesses/article_43030dd8-6dd2-4799-b476-736fd3ed8de4.html)

### New York

- “ValueWise CEO Michael Mann Sentenced to 144 Months in Prison for \$100 Million Fraud” – August 2021: <https://www.justice.gov/usao-ndny/pr/valuedwise-ceo-michael-mann-sentenced-144-months-prison-100-million-fraud>

### Ohio/Indiana

- “Michigan Man Sentenced to Prison for Check-Kiting Scheme that Caused Loss of Nearly \$150 Million” – November 2023: <https://www.justice.gov/usao-ndoh/pr/michigan-man-sentenced-prison-check-kiting-scheme-caused-loss-nearly-150-million>

### Virginia

- “Owner of Blue Ridge Bookkeeping Sentenced for Wire and Tax Fraud” – July 2024: <https://www.justice.gov/usao-wdva/pr/owner-blue-ridge-bookkeeping-sentenced-wire-and-tax-fraud>
- “Federal jury convicts New York man for defrauding restaurant employees and COVID-19 relief program” – March 2024: <https://www.justice.gov/usao-edva/pr/federal-jury-convicts-new-york-man-defrauding-restaurant-employees-and-covid-19-relief>

# **SB261 Letter of Information.pdf**

Uploaded by: Amy Hennen

Position: INFO

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**MARYLAND DEPARTMENT OF LABOR TESTIMONY ON SB261**

TO: Senate Finance Committee  
FROM: Antonio P. Salazar, Commissioner of Financial Regulation  
DATE: February 5, 2026  
BILL: SB261 Maryland Money Transmission Act - Definition of Money  
Transmitter - Alteration

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**MDL POSITION: Letter of Information**

Senate Bill 261 proposes to exempt payroll processors from Maryland's money transmission licensing requirements, provided they meet certain exception standards.

In 2022, Maryland, as part of an effort to align with nationwide money transmission regulatory standards, adopted the Model Money Transmission Modernization Act (Model Law). This adoption resulted in the Office of Financial Regulation (OFR) including payroll processors within the definition of money transmission in its regulations. After Maryland's adoption of the money transmission regulations, several states chose to exempt payroll processors for money transmission

The current bill removes qualifying payroll processors from Maryland's definition of money transmitter. The exception standards align Maryland with various other states, including Colorado, Iowa, Kansas, Missouri, South Dakota, and Virginia, which also provide this exception standard.

OFR estimates that this change would affect three companies, which are currently licensed solely as payroll processors. Of the ten payroll processor companies currently licensed as money transmitters, seven also provide other money transmission services and would need to retain their license. The estimated annual loss of licensing fee revenue as well as assessments based on volume is estimated to be \$15,000.

The Department respectfully submits the information for the Committee's information on SB261.

For questions, please contact Andrew Fulginiti, at [Andrew.Fulginiti@maryland.gov](mailto:Andrew.Fulginiti@maryland.gov)