

## On legislation clarifying the taxation of staffing services

Two bills, SB 6424 and HB 2832, are now being considered in the legislature to change the Business and Operating tax rate that applies to temporary staffing services, provide an exception for retailing services, and provide a limited amnesty to temporary staffing companies that work in good faith to remit retail sales and use taxes. Revenue collected by the state is expected to remain about the same. In analyzing these bills, Washington Policy Center presents the following points for lawmakers' consideration.

### 1. Clarifying current law.

Past court decisions and Department of Revenue rulings have created confusion over the taxation of temporary staffing agencies. These bills find it is in the best interest of the state to clarify the classification of temporary staffing services under the B&O tax, reduce the tax rate that is applied to the industry and provide for the collection of sales taxes that are not collected now. Clarifying the law and reducing the tax rate would create a number of public policy benefits.

### 2. Accurate taxation.

Under current law temporary staffing companies are taxed at the B&O rate for services (1.5%). The proposed bills would apply the next lowest tax rate (.484%), which more accurately represents the way temporary staffing agencies operate, since wages for them are simply pass-through costs. In addition, the current tax code discriminates against temporary workers because they are taxed each time they are placed for employment, while there is no tax on hiring other types of workers. The bills would provide that in general temporary staffing services would be taxed at .484%. An exception is provided when temporary workers perform retailing services, which would then be taxed at the B&O rate for retailing (.471%). Also, the bills clarify when the industry must pay sales tax. If they become law, revenue to the state from this source will remain the same or slightly increase.

### 3. Economic benefits of temporary staffing services.

Placing a high B&O tax rate on people in temporary positions discourages job creation and makes it harder for the unemployed to find work. For many laid off workers, a temporary job is the best path back to full-time employment. For others, a temporary position frees their time to invest in acquiring further education, training and job-skills. Not everyone is able to work full time right away. The temporary labor market is a reflection of how citizens plan for work opportunities and training so they can

lead successful, independent lives. Employers get reliable workers with a minimum of red tape, and workers get the chance to work where they want and when they want. The result is a more highly trained and flexible workforce that is better able to meet the needs of Washington businesses in a rapidly changing economy.

#### 4. Enhancing economic development.

The state is slowly emerging from a recession. Reducing taxation on job-creation would markedly improve Washington's business climate and make temporary staffing services more widely available in the economy. In addition, temporary staffing firms help the most vulnerable citizens in our communities find job opportunities, allowing them to be less dependent on public assistance and thus reducing cost to government. Accessing jobs in the formal economy means marginal workers are less likely to be exploited by the underground labor market.

Clarifying the tax on job-creation is sound public policy. Letting the temporary labor market operate at a more reasonable B&O tax rate is the quickest way to help our struggling state economy recover, and create work opportunities for thousands of hard-working men and women.

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