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HB 3427 Taxes Staffing Services, Hurts Jobs

HB 3427 (-1 amendment) imposes a gross receipts tax of 0.49% on sales revenue above $1 million and allows a 25% exclusion for either labor costs or business inputs. This will, in effect, be a direct tax on the labor provided by Oregon staffing firms.

Temporary and contract staffing firms play a vital role in Oregon'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. Taxing staffing services will cause significant economic and social harm that will far outweigh the benefit that might flow from any increased revenues.

A Tax on Staffing Services is a Tax on Jobs that Will Harm Oregon's Economy

Staffing firms are job creators. That is all they do. Staffing firms employ more than 3 million temporary and contract workers in the U.S. every week—more than 15 million annually—in virtually every job category, including industrial labor, office support, health care, information technology, and professional and managerial positions. In Oregon, staffing firms employ over 157,000 people annually.

A study conducted by the American Staffing Association found that taxing staffing services has a major negative impact on temporary employment that ripples throughout a state's economy. Such taxes raise the cost of labor, reduce the demand for temporary services, and negatively affect employment and economic activity in the taxing jurisdiction. And fewer temporary jobs will increase the labor supply putting downward pressure on wages.

The study estimated that for every 1% of tax on staffing services, temporary employment will go down by 2.13%, with a corresponding reduction in wages of 0.44%. Even considering that some displaced temporary workers will find permanent jobs, the study conservatively estimated that every 1% of tax will result in a 0.8% 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 communications and other services, which could reduce employment in those industries. Fewer temporary jobs also means less spending by those out of work, which adversely affects other sectors of the economy.

Job losses from taxing staffing services not only will reduce expected tax revenue, but also reduce income tax and other tax collections throughout the state. Unemployment insurance payments and other social welfare costs also will increase. Hence, taxing staffing services is largely self-defeating on a net basis.

Taxing Staffing Services Hurts Small Businesses and Encourages Inefficient Use of Resources

Taxes staffing will put small, locally-owned businesses at a competitive disadvantage. Small businesses often rely on staffing firms to provide them with accounting, bookkeeping, secretarial, and other services. Taxing those services raises their cost of doing business since, unlike larger firms, they can't avoid the tax by hiring in-house staff. And larger firms are encouraged to hire in-house staff to perform many services as a means of tax avoidance, even when it would be more efficient to outsource those functions.

Taxing Business Services Results in "Tax Pyramiding"

Taxing staffing services means their clients bear some, or all, of the cost, thus amplifying the tax burden especially for clients whose services also are subject to tax. This tax "pyramiding" magnifies the tax burden all along the service chain to the ultimate consumers who effectively are taxed multiple times on the same service.

Taxing Staffing Services Will Put Oregon at a Competitive Disadvantage

Because taxes have a major negative effect on jobs and overall economic activity, a state that taxes staffing services will likely find itself at a competitive disadvantage with neighboring states that do not.

Conclusion

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

To avoid these negative outcomes, staffing firms should allowed to exclude all wages and wage related costs from revenue when determining tax liability as they are essentially pass-through costs.

For instance, under the Texas franchise tax, temporary staffing firms are allowed to "exclude from its total revenue payments received from a client for wages, payroll taxes on those wages, employee benefits, and workers' compensation benefits for the covered employees of the client."

The Oregon members of the American Staffing Association would respectfully request an amendment to HB 3427 to permit staffing firms to exclude all wages and wage related costs of staffing services from revenue when determining tax liability.