

How the Expansion of Sales Tax to Staffing Services Could Impact Your Business

February 11, 2025



In recent years, states across the U.S. have seen a significant shift in tax policies, particularly concerning the expansion of sales tax to various services. Historically, sales tax functioned as a consumption tax applied primarily to tangible personal property. However, the shift from a manufacturing-based economy to one dominated by e-commerce and technological services has driven the proliferation of sales tax to include services. This evolution is seen across the 45 sales-taxing jurisdictions in the U.S., as well as the District of Columbia, each adopting diverse approaches to taxing services to generate much-needed revenue. In some states, sales tax is imposed on a narrow range of services, while others have adopted a more comprehensive approach. It is important for a business to understand the implications of these laws, especially those in the staffing industry, to ensure compliance and avoid unexpected liabilities.

Below are some FAQs regarding sales tax applicability in the staffing industry to help organizations identify the complexities as well as navigate the obligations:

Q: Do all states tax staffing companies?

A: No. Approximately 10 states levy sales tax on certain staffing and employment services. Taxable fees vary by state but can include placement, counseling, and recruitment services. For example, in Connecticut employment agency services are taxable when there is procurement or an offer to procure an employee with the intention of creating a permanent employer-employee relationship. In Washington, whether employment placement services are taxable depends on whether a worker performs an activity defined as a retail sale.

Q: If our home state does not tax staffing services, can we still be liable for sales tax?

A: Yes, each state where your staff is located has its own unique tax rules. If your clients utilize staffing services in a state that taxes these services, you may be required to collect and remit sales tax to that state.

Q: Could we owe sales tax in other states even if our clients are not in states that tax staffing services?

A: Numerous factors can affect your liability in these situations. For example, if your company provides remote staffing in states where such services are taxable, even if the client is located in a non-taxable state, you may need to charge your client sales tax on the location of the remote work.

Q: Are we still liable for sales tax if another company resells our services?

A: When staffing services are purchased for resale, such as one staffing company procuring services from another staffing company, you must obtain proper reseller exemption certificates from your customers to support the tax exemption. The certificate evidences the reason why sales tax was excluded from the charge and should be retained in your files in case of a future tax examination.

Q: What steps can one take to comply with sales tax regulations for staffing services?

A: To ensure compliance, regularly review the documentation you maintain, such as exemption certificates, and consider consulting with a sales tax specialist. It is recommended that companies contact their advisors so that they can provide

tailored guidance and support to effectively navigate the sales tax regulations.

Understanding and staying informed about these laws ensure compliance and helps avoid costly penalties or legal issues. For businesses like staffing firms operating across multiple jurisdictions, this knowledge is essential to confront the complexities of multistate tax obligations. In an environment where tax laws are continually changing, particularly with the expansion of sales tax to services, being well-versed in the tax requirements of the states your business is active in is not just beneficial, but necessary for sustained business success.

For further information and guidance on state-specific sales tax rules with respect to staffing firms, please contact [Alan Goldenberg](#), Principal and Leader of the State and Local Tax and Tax Controversy groups, [Matthew Rosenblatt](#), Partner, or your Anchin Relationship Partner.