

- SUBJECT:** Changing taxation requirements for professional employer organizations
- COMMITTEE:** Economic and Small Business Development — committee substitute recommended
- VOTE:** 9 ayes — Button, Johnson, C. Anderson, Faircloth, Isaac, Metcalf, E. Rodriguez, Villalba, Vo
- 0 nays
- WITNESSES:** For — Chris Dollins, Texas Chapter of National Association of Professional Employer Organizations; (*Registered, but did not testify:* Andrea McHenry, Insperity, Inc.; Daniel Harris, National Association of Professional Employer Organizations; Garry Bradford; Guy Robert Jackson)
- Against — (*Registered, but did not testify:* Jennifer Stevens, ADP Total Source; Mary Nabers, Trinet)
- On — Steve Riley, Texas Workforce Commission
- BACKGROUND:** Professional employer organizations, defined in Labor Code, ch. 91, provide professional services such as human resources or insurance coverage for small employers.
- Sec. 201.082 determines the amount an employer must pay into the state unemployment compensation fund per employee per year. When a small business contracts with a professional employer organization in the middle of the calendar year, the professional employer organization must start the year again in terms of how much money to contribute to the unemployment compensation fund per employee. These costs usually are passed on to the client business.
- DIGEST:** CSHB 3150 would amend the Labor Code to permit a professional employer organization to apply the amount that had already been paid into the state unemployment compensation fund on behalf of an employee in a

calendar year toward that employee's total for the year.

The bill also would require professional employer organizations to file information with the Texas Workforce Commission about their client's classification code according to the North American Industry Classification System.

The bill would take effect September 1, 2015, and would only apply to contributions and withholdings due on or after January 1, 2016.

**SUPPORTERS
SAY:**

CSHB 3150 would end the double taxation on small businesses that choose to use the services of a professional employer organization in the middle of the calendar year. Many small businesses cannot afford to hire additional personnel to handle human resources, insurance, and other administrative services required for full-time employees. This has led many to contract with professional employer organizations, whose services help enable a company to focus on growing the company's business and creating jobs.

Under current law, businesses that contract with a professional employer organization in the middle of the calendar year unintentionally expose themselves to double taxation, which the bill would prevent. The state should not penalize small businesses for this. More broadly, the amount of revenue that no longer would be going into the unemployment compensation fund by ending this practice is inconsequential compared to how vital small businesses are to the economy.

**OPPONENTS
SAY:**

Businesses that contract with a professional employer organization in the middle of the year pay more into the unemployment compensation fund than they otherwise would. By ending this practice, CSHB 3150 would decrease the amount of revenue going to unemployment compensation, which might require other businesses to make up the difference.