



PEO LEGISLATION: THE SMALL BUSINESS EFFICIENCY ACT

What is a PEO

- Professional Employer Organizations (PEOs) contract mainly with small and mid-sized businesses to provide human resource and related services for workers at those businesses.

What PEOs Do

- By handling payroll, and employment-related compliance assistance, PEOs allow small businesses to focus on their core business and to grow their bottom line and add jobs.
- Most PEOs provide their small and mid-sized business client's access to employee benefits such as 401(k) plans, healthcare, dental and life insurance, dependent care and other benefits typically available to larger companies.
- Approximately 2.5 million American workers enjoy the benefits of PEO arrangements.
- PEOs operate in all 50 states, and 38 states have adopted some form of statutory recognition for PEOs.
- Almost 15% of all private-sector employees in the state of Florida are employed by PEOs.

PEO Legislation: The Small Business Efficiency Act

- **The Small Business Efficiency Act** (H.R. 2466/S. 1908) is sponsored by Representatives Kevin Brady (R-TX) and Mike Thompson (D-CA) and Senators Charles Grassley (R-IA) and Bill Nelson (D-FL).
- **The Small Business Efficiency Act** was passed by the Senate twice in 2007.

What Does The Small Business Efficiency Act Do?

- It creates a voluntary certification process for PEOs within the IRS.
- An IRS certified PEO would be required to provide to the IRS on an annual basis an audited financial statement from an independent CPA, a surety bond, and pay a registration fee to offset the cost of the program.
- **It is a tax bill** that guarantees that a small business client of an IRS PEO will be held harmless if the certified PEO fails to remit payroll taxes paid to the PEO. As this legislation amends the Internal Revenue Code, it has no effect on other areas of federal law.

Who Benefits from the Small Business Efficiency Act?

- **Small Businesses:** The IRS has stated that a certification program for PEOs "would make it easier and safer for small businesses to use [PEOs] to fulfill their employment tax obligations." The Inspector General of the Treasury Department found that small businesses working with PEOs may be inappropriately targeted by IRS compliance enforcement programs and recommended consideration of a PEO certification program.
- **Employees:** Benefit from access to large employer type health and retirement packages offerings from the PEO that might not otherwise be available.
- **PEOs:** The voluntary certification process will allow the PEO industry to grow and provide certainty to the small and mid-sized companies they serve.