

## **THE SMALL BUSINESS EFFICIENCY ACT: PROTECTS SMALL BUSINESS AND PROMOTES GOOD GOVERNMENT**

The National Association of Professional Employer Organizations (NAPEO) is the trade association for and voice of the professional employer organization (PEO) industry. NAPEO has more than 300 PEO members operating in all 50 states, representing more than 85 percent of the industry's \$81 billion in revenues. PEOs help small- and medium-sized businesses with human resources, compensation, and employee benefits issues. Through the economies of scale, PEOs improve compliance with federal and state employment taxes, benefits laws, and often provide retirement and health benefits to workers that were not available prior to the PEO arrangement.

NAPEO has endorsed The Small Business Efficiency Act of 2011 (H.R. 2466/S. 1908), sponsored by Representatives Kevin Brady (R-TX) and Mike Thompson (D-CA), along with Senators Charles Grassley (R-IA) and Bill Nelson (D-FL). These bills clarify current federal tax law to eliminate any uncertainty about the ability of PEOs to assume liability for paying wages and collecting federal employment taxes for workers. The bill creates a voluntary certification program for PEOs (CPEOs) that meet standards of solvency and responsibility, and that maintain ongoing certification by the IRS. To be certified by the IRS, a PEO must meet stringent standards, including having no criminal record, having no unpaid taxes, and obtaining financial reviews from independent CPAs. In addition, the CPEO would post a bond for the payment of employment taxes. CPEOs must also accept sole liability for the collection of federal employment taxes with respect to worksite employees performing services for PEO clients.

### **WHY SHOULD CONGRESS PASS THE SMALL BUSINESS EFFICIENCY ACT?**

- **It Protects Small Businesses:** On November 8, 2011, the Treasury Inspector General for Tax Administration (TIGTA) released to the public a report on the IRS implementation of the small business health care tax credit. A key finding of this report was that small businesses working with PEOs may inappropriately become the target of IRS compliance programs, resulting in a waste of IRS resources and unnecessary IRS enforcement activities against small businesses. The Small Business Efficiency Act would address many of the concerns raised by TIGTA and provide clarity on the use of PEOs to remit federal employment taxes. Businesses that contract with certified PEOs would be assured that they would not be liable for employment taxes when the PEO has accepted that responsibility. That is why the National Federation of Independent Business said, "PEOs provide important resources to small businesses and we believe with this clarification, our member businesses will be more likely to take advantage of the services of PEOs."
- **It Promotes Good Government:** CPEOs would facilitate tax administration by reducing the number of returns processed and by reducing errors in calculating employment taxes. In addition, the bill would improve compliance by accelerating the timing of collection of employment taxes because CPEOs deposit taxes more quickly than their small business clients. Both Presidents Obama and Bush have included comparable proposals in their budgets and TIGTA has called for legislation that would certify PEOs with conditions like those contained in the Small Business Efficiency Act.

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