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February 6, 2012

The Honorable Harry Reid
522 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Reid:

The National Association of Professional Employer Organizations (NAPEO) is the national trade association for the Professional Employer Organization (PEO) industry. NAPEO members operate in all 50 states, representing more than 85 percent of the industry's estimated \$81 billion in gross revenues. On behalf of the membership of NAPEO, I am writing to ask that you cosponsor and support the Small Business Efficiency Act (S. 1908) introduced by Senators Bill Nelson (D-FL) and Charles Grassley (R-IA).

PEOs help small- and medium-sized businesses with human resources, compensation, and employee benefits issues. PEOs improve compliance with federal and state tax and benefits laws and often provide retirement and health benefits that are not otherwise available to the employees of these firms. PEOs also collect employment taxes from their clients and remit the taxes to the IRS under the PEO's Employer Identification Number (EIN). This facilitates tax administration by reducing the number of returns processed and by reducing errors in calculating employment taxes.

While the PEO arrangement is beneficial for small businesses, there is no definition of PEO in the federal tax code. S. 1908 would address this oversight in the tax code by granting legal status to PEOs to collect and remit federal payroll taxes. In turn, this would improve small business compliance with federal payroll tax law. The legislation would also create a voluntary certification process within the IRS for PEOs and a safe harbor for small businesses that use certified PEOs. This would provide needed certainty for small businesses that use PEOs.

This bill enjoys bipartisan support in both the House and the Senate. The Treasury Inspector General for Tax Administration (TIGTA) has endorsed the concept of this bill. Certain provisions of this proposal have been included in every budget proposal of the President since 2006. In 2007, the Senate twice passed this measure as part of the minimum wage increase proposal.

Enclosed is a letter I recently sent to President Obama urging him to mention S. 1908 in his State of the Union Address, which also highlights the benefits of PEOs to small businesses and their employees. I have also enclosed a one-page fact sheet on our industry and the benefits of the SBEA.

I urge you to cosponsor and support the Small Business Efficiency Act. Please contact me if you have any questions about the PEO industry in your state.

Thank you again for your support of the PEO industry.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick J. Cleary", is written over a horizontal line.

Patrick J. Cleary
President and CEO