LEGISLATIVE COMMITTEE MINUTES

SB211

Bill as Introduced

2015 SESSION

15-0634
10/09

SENATE BILL *211-FN*

AN ACT relative to taxation of employee leasing companies under the business enterprise tax.

SPONSORS: Sen. Carson, Dist 14; Sen. Boutin, Dist 16; Sen. Daniels, Dist 11; Sen. Bradley, Dist 3; Sen. Lasky, Dist 13; Sen. Soucy, Dist 18; Rep. L. Ober, Hills 37; Rep. Cilley, Straf 4

COMMITTEE: Commerce

ANALYSIS

This bill allows an employee leasing company and a client company to elect to make the client company solely responsible for paying business enterprise taxes concerning its leased employees and be eligible for credits against such taxes.

- -

Explanation: Matter added to current law appears in ***bold italics.***
Matter removed from current law appears [~~in brackets and struckthrough.~~]
Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

15-0634
10/09

STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Fifteen

AN ACT relative to taxation of employee leasing companies under the business enterprise tax.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 New Section; Business Enterprise Tax; Employee Leasing Companies. Amend RSA 77-E by inserting after section 13 the following new section:

77-E:13-a Employee Leasing Companies.

I. For the purposes of the provisions of RSA 277-B:9, I(h), an employee leasing company and client company may elect to make the client company solely responsible for paying the tax imposed by RSA 77-E, and include in the client company's compensation portion of the enterprise value tax base those wages paid to the leased employees.

II. If the employee leasing company and the client company make such an election, the client company shall be eligible for the credit provided in RSA 77-A:5, X.

III.(a) In order to make the election under paragraph I, the client company and the employee leasing company shall file the forms required by the department pursuant to rules adopted by the commissioner under RSA 541-A.

(b) For an election to be effective for any given tax year, forms required to be filed with the commissioner shall be filed prior to the end of the employee leasing company's tax year.

(c) An election under this section shall remain in effect until the employee leasing company and the client company both notify the department of the termination of an election described in paragraph I on forms required by the department pursuant to rules adopted by the commissioner under RSA 541-A.

IV. For purposes of this section, the terms "employee leasing company" and "client company" shall have the same meaning as in RSA 277-B:2.

2 New Section; Employee Leasing Companies; Tax Credits. Amend RSA 277-B by inserting after section 17 the following new section:

277-B:17-a Tax Credits and Other Incentives. For purposes of determination of tax credits, grants, or any other economic incentives provided by this state or other government entity that are based on employment, leased employees shall be deemed employees solely of the client company. A client company shall be entitled to the benefit of any tax credit, economic incentive, or other benefit arising as the result of the employment of leased employees of such client company. Notwithstanding that the employee leasing company is the W-2 reporting employer, the client company shall continue to qualify for such benefit, incentive, or credit. If a grant or amount of any such incentive is based on the number of employees, then each client company shall be treated as employing only those leased employees co-employed by the client company. Leased employees working for other client companies of the employee leasing company shall not be counted together. Each employing leasing company shall provide, upon request by a client company, state agency, or department responsible for administration of any such tax credit or economic incentive, employment information reasonably required by such agency or department and necessary to support any request, claim, application, or other action by a client company seeking any such tax credit or economic incentive. The provisions of this section shall not apply to credits available under RSA 77-E which are governed by RSA 77-E:13-a.

3 Effective Date. This act shall take effect July 1, 2015.

LBAO
15-0634
02/03/15

SB 211-FN - FISCAL NOTE

AN ACT relative to taxation of employee leasing companies under the business enterprise tax.

FISCAL IMPACT:

The Department of Revenue Administration states this bill, **as introduced**, will have an indeterminable impact on state revenue in FY 2016 and each year thereafter. There will be no fiscal impact on state, county, and local expenditures, or county and local revenue.

METHODOLOGY:

The Department of Revenue Administration (DRA) states this bill allows an employee leasing company and a client company to elect to make the client company solely responsible for paying Business Enterprise Taxes (BET) concerning its leased employees and be eligible for credits against such taxes. DRA states under existing NH Labor law, RSA 277-B, an employee leasing company and client company are deemed co-employers and divide employment responsibilities under RSA 277-B:9. More specifically, RSA 277-B:9, I (h) requires the employee leasing company to pay the BET imposed by RSA 77-E and include in its compensation portion of the base tax those wages paid to its leased employees. This bill would take effect on July 1, 2015.
DRA is unable to estimate the fiscal impact of this bill because it does not know what companies would make such an election and if those companies would be liable for BET and/or Business Profits Tax (BPT). DRA cannot predict the difference in business tax liabilities between the leasing company and the client company in order to determine the impact of switching the BET from the leasing company (which could have large BET liabilities, but not much BPT liability) to the client company (which could have minimal BET liabilities, but larger BPT liabilities).

For example, a leasing company could have paid $1,000 in BET and $500 in BPT = $1,500 in revenue and:

- An election is made to shift the BET liability to the client company, but the client company does not meet the BET threshold and has a BPT liability of $1,000.
- An election is made to shift the BET liability to the client company and the client company pays $500 in BET, but does not have a BPT liability to use a BET credit.
- An election is made to shift the BET liability to the client company and the client company pays $1,000 in BET and has a $1,000 BPT liability that is offset by the BET credit.

The exact fiscal impact cannot be determined at this time.

SB 211-FN - AS AMENDED BY THE SENATE

03/05/2015 0510s

2015 SESSION

15-0634
10/09

SENATE BILL ***211-FN***

AN ACT relative to taxation of employee leasing companies under the business enterprise tax.

SPONSORS: Sen. Carson, Dist 14; Sen. Boutin, Dist 16; Sen. Daniels, Dist 11; Sen. Bradley, Dist 3; Sen. Lasky, Dist 13; Sen. Soucy, Dist 18; Rep. L. Ober, Hills 37; Rep. Cilley, Straf 4

COMMITTEE: Commerce

ANALYSIS

This bill allows an employee leasing company and a client company to elect to make the client company solely responsible for paying business enterprise taxes concerning its leased employees and be eligible for credits against such taxes.

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03/05/2015 0510s

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In the Year of Our Lord Two Thousand Fifteen

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Be it Enacted by the Senate and House of Representatives in General Court convened:

1 New Section; Business Enterprise Tax; Employee Leasing Companies. Amend RSA 77-E by inserting after section 13 the following new section:

77-E:13-a Employee Leasing Companies.

I. For the purposes of the provisions of RSA 277-B:9, I(h), an employee leasing company and client company may elect to make the client company solely responsible for paying the tax imposed by RSA 77-E, and include in the client company's compensation portion of the enterprise value tax base those wages paid to the leased employees.

II. If the employee leasing company and the client company make such an election, the client company shall be eligible for the credit provided in RSA 77-A:5, X.

III.(a) In order to make the election under paragraph I, the client company and the employee leasing company shall file the forms required by the department pursuant to rules adopted by the commissioner under RSA 541-A.

(b) For an election to be effective for any given tax year, forms required to be filed with the commissioner shall be filed prior to the end of the employee leasing company's tax year.

(c) An election under this section shall remain in effect until the employee leasing company and the client company both notify the department of the termination of an election described in paragraph I on forms required by the department pursuant to rules adopted by the commissioner under RSA 541-A.

(d) Upon making such an election, a client company may elect to authorize the employee leasing company to act as an agent for the client company for purposes of collecting and paying the tax imposed by RSA 77-E, provided that the client company files the forms required by the department of revenue administration to designate such an agent pursuant to rules adopted by the commissioner.

IV. For purposes of this section, the terms "employee leasing company" and "client company" shall have the same meaning as in RSA 277-B:2.

2 New Section; Employee Leasing Companies; Tax Credits. Amend RSA 277-B by inserting after section 17 the following new section:

277-B:17-a Tax Credits and Other Incentives. For purposes of determination of tax credits, grants, or any other economic incentives provided by this state or other government entity that are based on employment, leased employees shall be deemed employees solely of the client company. A client company shall be entitled to the benefit of any tax credit, economic incentive, or other benefit arising as the result of the employment of leased employees of such client company. Notwithstanding that the employee leasing company is the W-2 reporting employer, the client company shall continue to qualify for such benefit, incentive, or credit. If a grant or amount of any such incentive is based on the number of employees, then each client company shall be treated as employing only those leased employees co-employed by the client company. Leased employees working for other client companies of the employee leasing company shall not be counted together. Each employing leasing company shall provide, upon request by a client company, state agency, or department responsible for administration of any such tax credit or economic incentive, employment information reasonably required by such agency or department and necessary to support any request, claim, application, or other action by a client company seeking any such tax credit or economic incentive. The provisions of this section shall not apply to credits available under RSA 77-E which are governed by RSA 77-E:13-a.

3 Effective Date. This act shall take effect July 1, 2015.

LBAO
15-0634
02/03/15

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METHODOLOGY:

The Department of Revenue Administration (DRA) states this bill allows an employee leasing company and a client company to elect to make the client company solely responsible for paying Business Enterprise Taxes (BET) concerning its leased employees and be eligible for credits against such taxes. DRA states under existing NH Labor law, RSA 277-B, an employee leasing company and client company are deemed co-employers and divide employment responsibilities under RSA 277-B:9. More specifically, RSA 277-B:9, I (h) requires the employee leasing company to pay the BET imposed by RSA 77-E and include in its compensation portion of the base tax those wages paid to its leased employees. This bill would take effect on July 1, 2015.
DRA is unable to estimate the fiscal impact of this bill because it does not know what companies would make such an election and if those companies would be liable for BET and/or Business Profits Tax (BPT). DRA cannot predict the difference in business tax liabilities between the leasing company and the client company in order to determine the impact of switching the BET from the leasing company (which could have large BET liabilities, but not much BPT liability) to the client company (which could have minimal BET liabilities, but larger BPT liabilities).

For example, a leasing company could have paid $1,000 in BET and $500 in BPT = $1,500 in revenue and:

- An election is made to shift the BET liability to the client company, but the client company does not meet the BET threshold and has a BPT liability of $1,000.
- An election is made to shift the BET liability to the client company and the client company pays $500 in BET, but does not have a BPT liability to use a BET credit.
- An election is made to shift the BET liability to the client company and the client company pays $1,000 in BET and has a $1,000 BPT liability that is offset by the BET credit.

The exact fiscal impact cannot be determined at this time.

SB 211-FN – FINAL VERSION

03/05/2015 0510s
29Apr2015... 1240h

2015 SESSION

15-0634
10/09

SENATE BILL ***211-FN***

AN ACT relative to taxation of employee leasing companies under the business enterprise tax.

SPONSORS: Sen. Carson, Dist 14; Sen. Boutin, Dist 16; Sen. Daniels, Dist 11; Sen. Bradley, Dist 3; Sen. Lasky, Dist 13; Sen. Soucy, Dist 18; Rep. L. Ober, Hills 37; Rep. Cilley, Straf 4

COMMITTEE: Commerce

ANALYSIS

This bill allows an employee leasing company and a client company to elect to make the client company solely responsible for paying business enterprise taxes concerning its leased employees and be eligible for credits against such taxes.

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03/05/2015 0510s
29Apr2015... 1240h

15-0634
10/09

STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Fifteen

AN ACT relative to taxation of employee leasing companies under the business enterprise tax.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 New Section; Business Enterprise Tax; Employee Leasing Companies. Amend RSA 77-E by inserting after section 13 the following new section:

77-E:13-a Employee Leasing Companies.

I. For the purposes of the provisions of RSA 277-B:9, I(h), an employee leasing company and client company may elect to make the client company solely responsible for paying the tax imposed by RSA 77-E, and include in the client company's compensation portion of the enterprise value tax base those wages paid to the leased employees.

II. If the employee leasing company and the client company make such an election, the client company shall be eligible for the credit provided in RSA 77-A:5, X.

III.(a) In order to make the election under paragraph I, the client company and the employee leasing company shall file the forms required by the department pursuant to rules adopted by the commissioner under RSA 541-A.

(b) For an election to be effective for any given tax year, forms required to be filed with the commissioner shall be filed prior to the end of the employee leasing company's tax year.

(c) An election under this section shall remain in effect until the employee leasing company and the client company both notify the department of the termination of an election described in paragraph I on forms required by the department pursuant to rules adopted by the commissioner under RSA 541-A.

IV. For purposes of this section, the terms "employee leasing company" and "client company" shall have the same meaning as in RSA 277-B:2.

2 New Section; Employee Leasing Companies; Tax Credits. Amend RSA 277-B by inserting after section 17 the following new section:

277-B:17-a Tax Credits and Other Incentives. For purposes of determination of tax credits, grants, or any other economic incentives provided by this state or other government entity that are based on employment, leased employees shall be deemed employees solely of the client company if an election is made pursuant to RSA 77-E:13-a. A client company shall be entitled to the benefit of any tax credit, economic incentive, or other benefit arising as the result of the employment of leased employees of such client company. Notwithstanding that the employee leasing company is the W-2 reporting employer, the client company shall continue to qualify for such benefit, incentive, or credit.

If a grant or amount of any such incentive is based on the number of employees, then each client company shall be treated as employing only those leased employees co-employed by the client company. Leased employees working for other client companies of the employee leasing company shall not be counted together. Each employing leasing company shall provide, upon request by a client company, state agency, or department responsible for administration of any such tax credit or economic incentive, employment information reasonably required by such agency or department and necessary to support any request, claim, application, or other action by a client company seeking any such tax credit or economic incentive.

3 Employee Leasing Companies; Co-Employment; Election. Amend RSA 277-B:9, I(h) to read as follows:

(h) Paying the tax imposed by RSA 77-E and inclusion in its compensation portion of the base tax those wages paid to its leased employees***, unless an election is made pursuant to RSA 77-E:13-a.***

4 Applicability. The provisions of this act shall apply to taxable periods beginning on or after January 1, 2016.

5 Effective Date. This act shall take effect July 1, 2015.

LBAO
15-0634
Amended 05/07/15

SB 211-FN - FISCAL NOTE

AN ACT relative to taxation of employee leasing companies under the business enterprise tax.

FISCAL IMPACT:

The Department of Revenue Administration states this bill, **as amended by the House (Amendment #2015-1240h)**, will have an indeterminable impact on state revenue in FY 2016 and each year thereafter. There will be no fiscal impact on state, county, and local expenditures, or county and local revenue.

METHODOLOGY:

The Department of Revenue Administration states under existing NH Labor law, RSA 277-B, an employee leasing company and client company are deemed co-employers and divide employment responsibilities under RSA 277-B:9. More specifically, RSA 277-B:9, I (h) requires the employee leasing company to pay the Business Enterprise Tax (BET) imposed by RSA 77-E and include in its compensation portion of the base tax those wages paid to its leased employees. This bill would allow an employee leasing company and a client company to elect to make the client company solely responsible for paying the BET concerning its leased employees and be eligible for credits against such taxes. The bill would take effect on July 1, 2015, but would apply to taxable periods beginning on or after January 1, 2016. The Department is unable to estimate the fiscal impact of this bill because it does not know what companies would make such an election and if those companies would be liable for BET and/or Business Profits Tax (BPT). For example, a leasing company could have paid $1,000 in BET and $500 in BPT = $1,500 in revenue and:

- An election is made to shift the BET liability to the client company, but the client company does not meet the BET threshold and has a BPT liability of $1,000.
- An election is made to shift the BET liability to the client company and the client company pays $500 in BET, but does not have a BPT liability to use a BET credit.
- An election is made to shift the BET liability to the client company and the client company pays $1,000 in BET and has a $1,000 BPT liability that is offset by the BET credit.

Amendments

Commerce

February 19, 2015

2015-0510s

10/03

Amendment to SB 211-FN

Amend RSA 77-E:13-a, III as inserted by section 1 of the bill by inserting after subparagraph (c) the following new subparagraph:

(d) Upon making such an election, a client company may elect to authorize the employee leasing company to act as an agent for the client company for purposes of collecting and paying the tax imposed by RSA 77-E, provided that the client company files the forms required by the department of revenue administration to designate such an agent pursuant to rules adopted by the commissioner.

Committee Minutes

AMENDED
SENATE CALENDAR NOTICE
COMMERCE

Printed: 02/04/2015 at 10:43 am

Senator Russell Prescott Chairman
Senator Jeb Bradley V Chairman
Senator Sam Cataldo
Senator Donna Soucy
Senator David Pierce

For Use by Senate Clerk's Office ONLY

☐ Bill Status

☐ Docket

☐ Calendar

Proof: ☐ Calendar ☐ Bill Status

Date: February 4, 2015

HEARINGS

Tuesday 2/17/2015

COMMERCE	SH 100	1:00 PM
(Name of Committee)	(Place)	(Time)

EXECUTIVE SESSION MAY FOLLOW

1:00 PM	SB223-FN	relative to name availability for business organizations.
1:20 PM	SB211-FN	relative to taxation of employee leasing companies under the business enterprise tax.
1:40 PM	SB219-FN	relative to breastfeeding.
2:00 PM	SB122-FN	relative to requirements for on-premises liquor licenses.
2:20 PM	SB107-FN	prohibiting collective bargaining agreements that require employees to join or contribute to a labor union.

Sponsors:

SB223-FN
Sen. Jeff Woodburn, Sen. Andy Sanborn, Sen. Gary Daniels, Rep. Raymond Gagnon, Rep. Jacalyn Cilley

SB211-FN
Sen. Sharon Carson, Sen. David Boutin, Sen. Gary Daniels, Sen. Jeb Bradley, Sen. Bette Lasky, Sen. Donna Soucy, Rep. Lynne Ober, Rep. Jacalyn Cilley

SB219-FN
Sen. Martha Fuller Clark, Sen. Molly Kelly, Sen. Jeb Bradley, Rep. Edward Butler, Rep. Thomas Buco, Rep. Karen Umberger, Sen. Bette Lasky

SB122-FN
Sen. Gary Daniels, Rep. Keith Ammon, Rep. Barbara Biggie

SB107-FN
Sen. John Reagan, Sen. Sam Cataldo, Sen. Gerald Little, Sen. Andy Sanborn, Sen. Gary Daniels, Sen. Kevin Avard

Patrick Murphy 271-8631

Sen. Russell Prescott
Chairman

SENATE COMMERCE COMMITTEE

Patrick Murphy, Legislative Aide

SB 211-FN Relative to taxation of employee leasing companies under the business enterprise tax.

Hearing Date: February 17, 2015

Time Opened: 1:26 p.m. **Time Closed:** 1:48 p.m.

Members of the Committee Present:
Senator Prescott, Senator Bradley, Senator Cataldo, Senator Soucy, Senator Pierce

Members of the Committee Absent: None

Bill Analysis: This bill allows an employee leasing company and a client company to elect to make the client company solely responsible for paying business enterprise taxes concerning its leased employees and be eligible for credits against such taxes.

Sponsors Sen. Carson, Dist 14; Sen. Boutin, Dist 16; Sen. Daniels, Dist 11; Sen. Bradley, Dist 3; Sen. Lasky, Dist 13; Sen. Soucy, Dist 18; Rep. L. Ober, Hills 37; Rep. Cilley, Straf 4

Who supports the bill: Sen. Carson, Dist 14; Sen. Betty Lasky, Dist 11; Sen. Boutin, Dist 16; Rep. Cilley, Dist 11; Suzan Lehmann, ADP Total source; Richard P. Davisson, Sponge-Jet, Inc.; Robert Burbidge, Genesis HR Solutions; Kara Yeater, Genesis HR Solutions; Melissa Kelly, NAPEO; George Attar, Surge Resources

Neutral on the bill: Mindy Cyr and John Lighthall, NH DRA

Who opposes the bill: None

Summary of testimony presented in support:
Sen. Carson, Dist 14;

- This bill will help foster job creation in NH. This bill allows an employee leasing company and a client company to elect to make the client company solely responsible for paying business enterprise taxes concerning its leased employees and be eligible for credits against such taxes.
- This bill addresses an unintended consequence of when the BET was created. The leasing of employees was never considered at the time. This corrects where the BET can be used as an offset to the BPT. DRA will have a form that can be filed to show an agreement between an employee leasing company and a client company. This correction will provide the fairness that was originally intended.

George Attar, Surge Resources

- Surge Resources supports small NH businesses that employ on average about 11 people per business. Surge Resources provides needed handling of administration and compliance issues. Our clients lose out on the BET tax credit.

- We build in the BET to our billing and then we remit the tax to the state. This would allow our clients to use the credit that is rightfully theirs like they want. This change would be good for NH small businesses.

Robert Burbidge, Genesis HR Solutions

- Businesses who partner with an employee leasing company have better growth and survival rates than businesses that don't. We support legislation that provides employee leasing companies clients with the same benefits to which they would be entitles absent a relationship with an employee leasing company.
- In response to questions from the Committee, the witness responded that whoever currently writes the check to the state of NH gets the tax credit. This bill would allow the employee leasing company to act as the agent but the small business client would get the credit.

Richard P. Davisson, Sponge-Jet, Inc

- Sponge-Jet Inc uses an employee leasing company to handle administrative functions that we aren't otherwise equipped for, but are penalized under current law buy not being able to claim the BET credit.

Summary of neutral testimony:
Mindy Cyr and John Lighthall, NH DRA

- Worked with the stakeholder on this language. The DRA can administer this if it becomes law. We would create a form to show the election made and help analysis who the BET payer is.
- In response to questions from the committee, the witnesses responded that current statute deems the employee leasing company and the client company as co-employers. Current statute says whoever pays the BET gets the credit and leasing companies currently are responsible for paying the BET. The form DRA will create would show that the two entities agree that the client company will pay the BET and therefore get the credit.

Summary of testimony presented in opposition: None

Fiscal Note: None

Future Action: Pending

Speakers

Senate Commerce Committee: Sign-In Sheet

Date: February 17, 2015 Time: 1:20 p.m. Public Hearing on SB 211-FN

SB 211-FN Relative to taxation of employee leasing companies under the business enterprise tax.

Name	Representing	Support	Oppose	Speaking? Yes	Speaking? No
Sen. Sharon Carson	SD #14	☑	☐	☑	☐
Suzan Lehmann	ADP TotalSource	☑	☐	☐	☑
RICHARD T. DAVISSON	SPONGE-JET, INC	☑	☐	☑	☐
Robert Burbidge	Genesis HR Solutions	☑	☐	☑	☐
Kara Yeater	Genesis HR Solutions	☑	☐	☑	☐
Melissa Kelly	NAPEO	☑	☐	☐	☑
~~Gary Abbott~~	~~Assoc. General Contractors~~	~~☐~~	~~☑~~	~~☐~~	~~☐~~
Sen. Bette Lasky	SD # 11	☑	☐	☐	☑
Jackie Cilley	Strafford District # 11	☑	☐	☐	☑
George Attar	Surge Resources	☑	☐	☑	☐
Senator David Boutin	SD #16	☑	☐	☐	☑
MINDY CYR & JOHN LIGHTHALL	NHDRA	☐ NO POSITION	☐	☑	☐
		☐	☐	☐	☐
		☐	☐	☐	☐

Testimony

GenesisHR
SOLUTIONS

Date: February 17, 2015
To: Senator Russell Prescott, Chairman
New Hampshire Senate Commerce Committee
From: Robert Burbidge
Re: Senate Bill 211-FN

I am here to speak for the interests of the business community here in New Hampshire and as such am asking you to support Senate Bill 211-FN. I am the New England leadership council chair of the National Association of Professional Employer Organizations (NAPEO) and the many member companies who support the small business community here in New Hampshire. I am also the CEO of Genesis HR Solutions. Our company has been providing PEO (also known as employee leasing) services to New Hampshire businesses since 1991.

I submit for your review two white papers that were written by McBassi and Company. The first, published in September, 2013 concludes that businesses who partner with a PEO grow more quickly than their peers. The second, published a year later evidences a lower employer turnover rate and a higher survival rate for businesses in a PEO relationship.

The evidence is clear. Businesses who partner with a PEO have better growth and survival rates than businesses that don't. In keeping with that spirit, it has always been the mission of NAPEO to support legislation and regulatory initiatives that provide PEO clients the same benefits to which they would be entitled absent a PEO relationship. Presently, the law in New Hampshire does not allow clients of PEOs to use the Business Enterprise Tax credits to offset profits. As such, PEO clients are wrongly penalized. We see this as an anomaly. Passage of Senate Bill 211-FN provides the fix that is necessary to help promote business growth in New Hampshire.

I am also submitting a letter from Jim Calandra, President and CEO of Gamma Medica and PEO partner of Genesis HR Solutions. Gamma Medica is precisely the kind of business that New Hampshire is trying to attract. As a medical imaging company, they have developed technology that quadruples early detection breast cancer rates for nearly 50% of all women. Since they moved to New Hampshire in 2013, they created 31 high paying jobs and are poised for continued growth. As their PEO partner, we are proud of their success and our role in helping them grow as a New Hampshire based business. Passage of this bill would show other businesses looking for a business-friendly state that New Hampshire would now be an attractive alternative.

On behalf of the PEO industry and the clients we support, I thank you for your consideration.

Robert J. Burbidge

Gamma Medica

Providing Peace of Mind

12 Manor Parkway, Unit 3
Salem, NH 03079
T 603.952.4441
F 603.870.8045
gammamedica.com
info@gammamedica.com

February 17, 2015

Senator Russell Prescott, Chairman
New Hampshire Senate Commerce Committee
Statehouse
Room 302
107 North Main Street
Concord, NH 03301

Dear Senator Prescott:

I am writing to express my support for SB 211-FN relating to the responsibility for paying business enterprise taxes among employee leasing companies and their clients, which is before the Senate Commerce Committee. As you know, New Hampshire offers a number of tax incentives to attract employers to the state and retain good high paying jobs. In the case of Gamma Medica, Inc., we have qualified for such incentives but obtaining the full benefit has been complicated by the fact that we utilize an employee leasing company to administer our payroll, benefits and workers' compensation. Gamma Medica has been a corporate resident of New Hampshire since 2013 and in that time we have generated 31 high paying jobs and expended nearly $20.0 million developing medical imaging technology in Salem. Our technology, molecular breast imaging, was used by the Mayo Clinic in a recently published study showing that it quadruples the cancer detection rate in women with dense breasts, a condition that exists in nearly 50% of women, compared to standard mammography.

For a small technology focused company like ours, utilizing an employee leasing company is an important option because it allows us to focus on our business rather than payroll administration and human resources compliance, which is expertly handled by the professionals at HR Genesis our employee leasing company partner. In addition, working with an employee leasing company allows Gamma Medica to provide excellent health and welfare benefits to our employees at a cost level that we could not obtain on our own. Furthermore, working with an employee leasing company helps us to manage our workers compensation costs and the reporting requirements that add to the regulatory burdens on a small company like ours.

In my view, an employee leasing company is acting as an agent of their client companies to administer payroll, benefit programs, and human resources compliance. Responsibility for the costs associated with employing the individuals, providing benefits and paying the administrative expenses (including the fees of the employee leasing company) lays squarely with the client companies.

Therefore, it only seems fair and equitable that client companies be able to benefit from all of the incentives that are available to companies creating jobs and investing in the development of technology in New Hampshire. This bill, when enacted, will stop penalizing companies for making rational economic and business decisions by making it difficult to enjoy the benefit of incentives that the legislature enacted to encourage companies to invest in our state.

SB 211-FN is a simple solution to a vexing problem that likely faces a small minority of employers in our state. I am proud to have selected my home town as the headquarters of Gamma Medica when I started the company two years ago, and I'm even more proud that the technology we develop and manufacture in my home town can make a meaningful difference in people's lives. This bill allows Gamma Medica to receive the benefits that it deserves for having made Salem New Hampshire its home and for adding to the local economy in a socially responsible manner.

Respectfully,

Jim Calandra
President & CEO
jim.calandra@gammamedica.com

Facts about Professional Employer Organizations (PEOs)

What is a PEO?

- A professional employer organization (PEO) provides comprehensive HR solutions for small businesses. Payroll, benefits, HR, tax administration, and regulatory compliance are some of the many services PEOs provide to small and growing businesses across the country.

Why a PEO?

- By providing payroll, benefits, and HR services and assisting with compliance issues under state and federal law, PEOs allow small businesses to improve productivity and profitability, to focus on their core mission, and to grow.
- Through a PEO, the employees of small businesses gain access to big-business employee benefits such as: 401(k) plans; health, dental, life, and other insurance; dependent care; and other benefits they might not typically receive as employees of a small company.

PEO Facts

- Approximately 250,000 small and mid-sized businesses and 2.5 million people are part of PEO arrangements.
- PEOs provide access to healthcare for as many as 4 to 6 million people.
- The average size of a small business client of a NAPEO member is 20 employees.
- According to one business study, 40 percent of small businesses in PEO relationships upgrade their total employee benefit offerings as a result of the PEO relationship.
- While only 27 percent of small businesses overall offer employee retirement plans (according to the NFIB), approximately 95 percent of NAPEO's members offer retirement plans to their small business worksite employees. Virtually all of those offer some level of matching contribution.
- Actuarial data shows that PEOs aggressively manage workers' compensation risks and reduce the basic costs of workers' compensation by as much as 25 percent for small business enterprises.
- To date, 40 states have adopted some form of PEO legislation and PEOs operate in all 50 states.

About NAPEO

- The National Association of Professional Employer Organizations (NAPEO) is the national trade association for the PEO industry, representing about 85 percent of the industry's estimated $92 billion in gross revenues.
- NAPEO has more than 300 PEO members ranging from start-ups to large publicly held companies with years of success in the industry, as well as some 200 service provider members. NAPEO members are headquartered in more than 40 states and have worksite employees in all 50 states.

"Using a PEO is like having a human resources department. You have a team of HR people, but only pay a portion of the expenses."

"Our PEO has been with us every step of the way in handling challenging employee issues. The staff is always there to help us with benefits and payroll."

"Our relationship with a PEO gives us the freedom to focus our attention on our customers."

NAPEO ®

National Association of Professional Employer Organizations

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Compared to other businesses, PEO clients:

Grow 7 to 9 percent faster

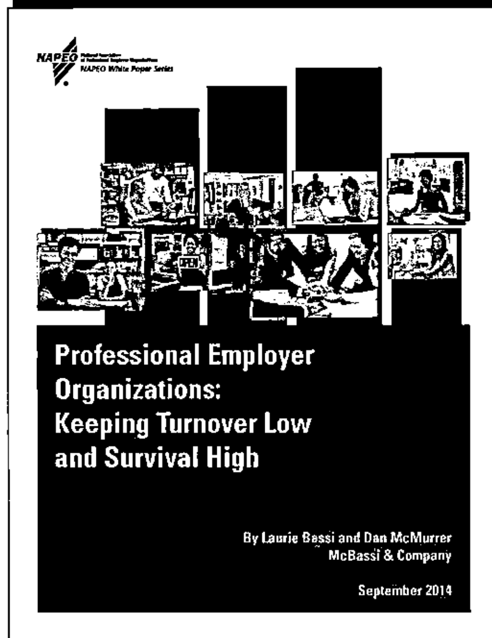
Have 23 to 32 percent lower employee turnover

Are 50 percent less likely to go out of business

www.napeo.org

Source:
Professional Employer Organizations:
Keeping Turnover Low and Survival High
McBassi & Company
2014

Key Findings of 'Professional Employer Organizations: Keeping Turnover Low and Survival High'


Professional Employer Organizations: Keeping Turnover Low and Survival High

By Laurie Bassi and Dan McMurrer
McBassi & Company

September 2014

- **The employee turnover rate for PEO clients is 10 to 14 percentage points lower per year than that of comparable companies, depending on data specification.** The average overall employee turnover rate in the United States was approximately 42 percent per year, based on 2012 data. It is 28 to 32 percent for companies that used PEOs for at least four quarters. While the exact cost of turnover is difficult to estimate, it is clear that the costs of employee turnover are quite significant and that a business that enjoys a higher employee retention rate is in a stronger position to survive and thrive over the long term. A frequently cited estimate based on a "Cost of Turnover" worksheet provided by the Society for Human Resource Management (SHRM) is that costs are roughly 150 percent of the employee's salary, with other calculations suggesting it is more than 200 percent for certain positions, such as managerial and sales jobs.

- **Businesses that use PEOs are approximately 50 percent less likely to fail (permanently go "out of business") from one year to the next when compared to similar companies in the population as a whole.** The overall business failure rate among private businesses in the United States as a whole is approximately 8 percent per year, based on 2012 data. It is approximately 4 percent per year for those companies that used PEOs for at least four quarters. The results are quite consistent whether companies are compared to expected survival for their industry or for their respective states. Even using the most conservative analytic approach, the business failure rate is 50 percent lower for businesses using PEOs than for businesses overall.

- **Across all industries, this study shows that there are clear advantages for PEO clients on two of the most fundamental issues faced by any business: retention of employees and continued survival.** PEOs significantly decrease employee turnover for their clients, allowing them to retain the knowledge and skills of their employees, while simultaneously reducing direct and indirect turnover-related costs (which are substantial). The fact that PEOs significantly increase the likelihood of client survival is likely a result of PEOs providing a combination of services that makes it possible for businesses to focus on their core areas of expertise.

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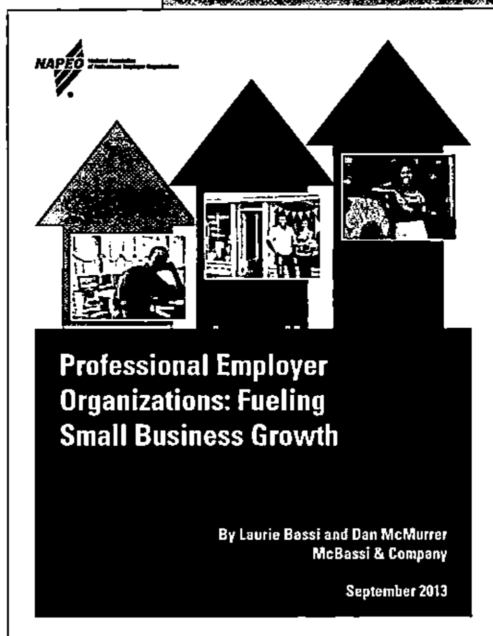
Key Findings of 'Professional Employer Organizations: Fueling Small Business Growth'

- **PEO clients have higher growth rates than other small businesses.** Since 2010, employment growth among PEO clients has been 9 percent higher than other small businesses (based on the Intuit Small Business Employment Index), and 4 percent higher than employment growth in the U.S. economy overall.

- **PEOs are able to provide a broad array of HR services at a lower cost.** A conservative estimate (based on information from Bersin & Associates) is that PEO clients enjoy a 21 percent savings on HR administration. For the typical PEO client, the savings are likely to be many times greater than this conservative estimate.

- **Small business executives who use PEOs are better able to focus their attention on the core business.** PEOs help their clients manage the "people side" of their businesses more effectively, avoiding compliance pitfalls and creating key benefits for the businesses and their employees, while simultaneously freeing up time for owners and executives to concentrate on growing their businesses by focusing on operations, strategy, and innovation.



See the report online at www.napeo.org.

- **PEOs offer retirement plans to small businesses that may not sponsor them otherwise, and their employees participate at much higher rates.** Ninety-eight percent of PEOs offer some type of retirement plan to their small business clients. In contrast, in 2011, only 16 percent of all employees of the smallest companies (those employing fewer than 10 workers), and 30 percent of those at companies with 10 to 49 employees, work for a company that sponsors some type of retirement plan, according to the Employee Benefit Research Institute (EBRI). Among the smallest businesses (employing fewer than 10 workers), the percentage of employees participating in employer-provided retirement plans is more than three times greater among employees of PEO clients than it is among employees of all other similarly-sized businesses (40 percent versus 13 percent). For employees working for companies with between 10 and 49 employees, there is also a major difference: 52 percent of employees versus 23 percent.

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NAPEO White Paper Series

Professional Employer Organizations: Fueling Small Business Growth

By Laurie Bassi and Dan McMurrer
McBassi & Company

September 2013

Exploring the Impact of PEOs

In recent years, a series of broad economic changes, especially those related to technology and globalization, has dramatically shifted the competitive landscape for all companies in the economy. Most of these changes are, at their foundation, directly related to an organization's people. This means professional employer organizations (PEOs) – with their extensive array of HR services and employee benefits – are now uniquely positioned and have significant potential to help businesses better meet their challenges in the face of today's demanding economic conditions. This study explores the evidence to determine how PEO clients are faring relative to other companies in the economy.

Most notably, a company's ability to survive and profit increasingly hinges on the degree to which it can manage its employees more effectively than its competitors can manage theirs. As traditional sources of competitive advantage have eroded in the face of globalization and technology change, the importance of a company's people has steadily increased. People – including their skills, knowledge, and creativity – represent a critical asset on which a company must depend for success in today's competitive marketplace.

Most employers know this in their gut, and a growing body of research confirms that so-called "human capital management" has been elevated to an essential organizational core competence that generates significant and sustainable competitive advantage. The best evidence that exists on the effects of better people management is based on the experiences of larger companies, but the lesson applies to companies of all sizes, who are all subject to the same economic forces and compete in the same marketplace. For example, the strongest predictor of a company's probability of surviving for at least 5 years after its initial public offering is its level of investment in human resources.[1] And the stock prices of "people companies" – those organizations that made Fortune's "100 Best Companies to Work For" list in at least 3 of the past 10 years – outperformed the S&P 500 by 99 percentage points over that period (109 percent versus 10 percent gain).[2]

Achieving sustainable competitive advantage through better management of employees is a huge challenge for even the largest and most sophisticated companies. But that challenge is even greater for small and mid-size organizations. And PEOs point to precisely that value proposition: they focus on the "people side" of their clients' businesses more effectively, avoiding compliance pitfalls and creating key benefits for the business and its employees, while simultaneously freeing up time for owners and executives to concentrate on growing their business by focusing on operations, strategy, and innovation. The existing evidence, summarized in this study, confirms this dynamic.

The Bottom Line

- Although PEO clients are small, they are able to offer a broad array of benefits to their employees at lower cost than companies that don't use PEOs.
- Many of these benefits (e.g., retirement plans) have much higher participation rates among employees of PEO clients.
- These benefits play a major role in helping businesses attract and retain employees.
- The broad array of HR services offered by PEOs also makes it possible for executives to focus their attention on the core business.
- All these factors pay off: PEO clients have higher growth rates than other small businesses.

PEO Services and Benefits

Evidence (described in additional detail in the sections below) indicates that PEOs offer better benefits to their worksite employees, offer a wider array of employee-related services, and are able to do this efficiently while saving their clients money (money that can be redirected to grow the business).

Most PEO clients are small to mid-size companies. The average number of employees among PEO clients is less than 10.[3] Organizations of this size usually have only a "bare bones" HR functionality, which typically focuses on the most basic HR needs: hiring employees, getting them paid on time, and navigating the complex world of taxation (including FICA and FUTA) and other compliance requirements in an accurate and timely manner.

Even these basics can be time-consuming, distracting, and fraught with potential for error. (The potential for errors – and associated penalties – is a significant area of risk for any employer.) PEOs typically take over these key HR responsibilities for worksite employees, administering employee payroll and benefits, personnel management, workers' compensation services, and monitoring and managing risk in these areas.

At the same time, PEOs make available to their employees a broad array of additional employee-related services. Each of these services generates advantages for the client business and/or the employees. In the next subsection, we explore one such service, focusing specifically on the extent to which retirement plans are disproportionately available to, and used by, worksite employees at the clients of PEOs.

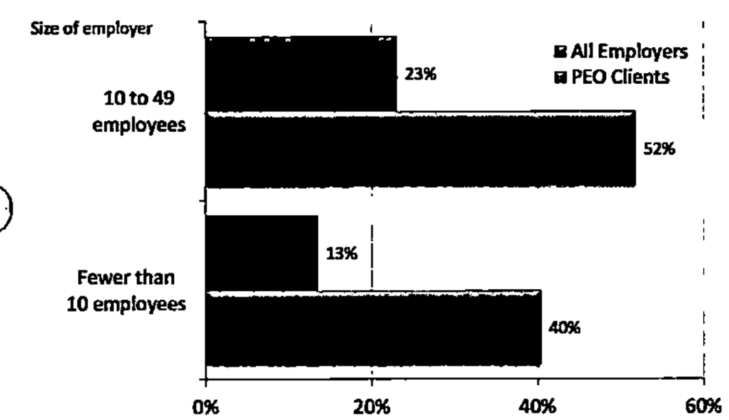
Retirement Benefits

Among the most valuable PEO services are employer-sponsored retirement benefits, such as 401(k) (or similar) plans. Retirement benefits play a major role in companies' abilities to attract and retain employees. A 2011 Towers Watson survey found that 47 percent of employees cited retirement benefits as an "important" reason to stay with their current employer, and 35 percent of employees viewed retirement benefits as an important reason they decided to work for their current employer in the first place.[4]

Nevertheless, retirement benefits are rare among most small businesses. The availability of retirement plans represents a major difference between PEO clients and other small businesses. Nearly all PEOs (98 percent) offer some type of retirement plan to their clients (although not all clients choose to take advantage of these services).[5] In contrast, in 2011, only 16 percent of all employees of the smallest companies (those employing fewer than 10 workers), and 30 percent of those at companies with 10 to 49 employees, work for a company that sponsors some type of retirement plan, according to the Employee Benefit Research Institute (EBRI).[6] A survey of small businesses without retirement plans found those businesses encountered a variety of obstacles to offering such a plan: "it costs too much to set up and administer" was the second most frequently-cited obstacle to offering a retirement plan, while others pointed to burdensome administration. ("Revenue uncertainty" was the most frequently-cited obstacle.)[7]

The differences in retirement plan availability are reflected in similarly large differences in employee retirement plan participation between those working for PEO clients and others. Among the smallest businesses (employing fewer than 10 workers), the percentage of employees participating in employer-provided retirement plans is over 3 times greater among employees working at PEO clients than it is among employees of all other similarly-sized businesses (40 percent versus 13 percent; see Figure 1).[8] For employees working for somewhat larger businesses (with between 10 and 49 employees), there is also a major difference: 52 percent of employees versus 23 percent.

Figure 1. Percentage of workers participating in retirement plan



In addition to providing key benefits to businesses in terms of employee attraction and retention, the greater participation in retirement plans naturally provides major benefits to employees as well. A large body of research shows that having accessible retirement savings options at work has a significant impact on people's ability to save for their future. For example, a 2013 survey found employees with access to workplace retirement benefits are significantly more confident about their retirement prospects, more likely to also be saving for retirement outside of work, and more likely to have concrete retirement savings strategies and plans.[9]

By making it much easier for the underserved small and mid-size employer population to provide retirement plans to their workforces, PEOs provide a service that creates value for employees and for our broader society. And in so doing, PEO clients reap key benefits in turn – being able to attract and retain higher quality employees enables them to grow faster (as described in additional detail below).

Broad Array of Services

From the array of PEO-provided services, in the section above, we focused in detail on retirement plans for two reasons. First, high-quality data exists measuring the availability of retirement plans both within the PEO environment and for smaller businesses overall, making it possible to accurately compare across the two populations of companies. Second, as described above, retirement plans create key benefits across a range of stakeholders that include both the employer and employee. While the data does not allow for similar quantitative comparisons between PEO clients and others for numerous other available services, it is reasonable to expect that similar patterns prevail for many of those services as well: greater availability for PEO clients, with significant benefits that accrue to employers, employees, or both. The chief administrative officer at a hotel management firm reports, "We appreciate being able to give employees access to our PEO's broad selection of benefits, which enables them to effectively meet their individual needs."[10]

These additional services fall into a wide variety of categories. For example, of the PEOs responding to NAPEO's 2013 Financial Ratio & Operating Statistics Survey, 100 percent reported that they provide clients with compliance assistance on HR-specific regulations such as EEOC and FMLA. Nearly two-thirds of all PEOs responding to the survey offer online training for worksite employees – a valuable, but typically quite challenging, investment for small firms to make. A large majority of PEOs also offer services in performance reviews and developing job descriptions. Both of these fall into the category of HR-related tasks that are time-consuming and involve significant potential risk if not executed correctly.

Another key service offered by PEOs is the administration of workers' compensation programs. Virtually all states (except Texas and Oklahoma) mandate workers' compensation coverage for worksite employees. In many cases the PEO secures that coverage for the worksite employees, while in others PEOs assure that coverage is in place. Workers' compensation can be a highly complex program and, as such, is one that can demand significant time and expertise to administer. A large amount of detailed research has been conducted in recent years on whether there are any differences in workers' compensation administration and compliance between PEO clients and other small businesses.[11] Overall, the research concludes that PEO clients perform comparably, if not slightly better, relative to other employers on a range of key workers' compensation measures. This positive finding is particularly notable, given the small size of PEO clients and the disproportionate compliance burden faced by smaller businesses.

Table 1 provides a detailed summary of the extent to which a wide range of services are provided by PEOs to their clients. Like retirement plans, many of these services are likely available to a much higher percentage of PEO clients than to other businesses, especially among the smallest employers.

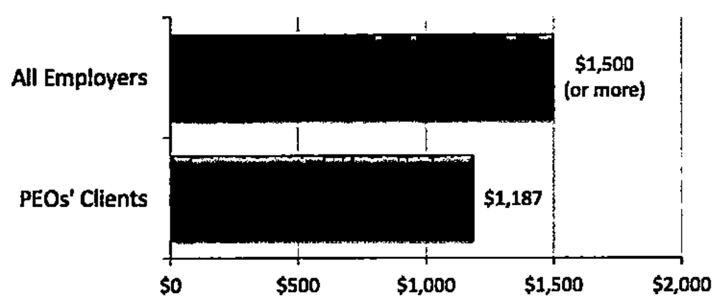
More Services at a Lower Price

Despite this broad array of offerings, PEOs are able to provide these services at a lower cost than their clients would have to pay for more basic HR administrative services. For example, in 2011, PEOs' gross profit margin was $1,187 per worksite employee; this figure represents the revenue remaining after all direct employee-related costs (salaries and wages, health or medical, FICA, etc.) have been paid. Out of its gross operating margin, a PEO must pay all of its own operating expenses. So, in essence, the figure of $1,187 represents the amount PEO clients are paying for HR administration and all other services offered by their PEO.

Table 1. HR service offerings by PEOs, % offering[12]

HR service offering	% of PEOs offering service
Compliance assistance on HR-specific regulations such as EEOC, FMLA	100.0
Retirement plans for employees	98.4
Assistance with job descriptions	98.4
Paid time off (PTO) tracking and reporting	98.4
Customized employee handbooks	95.1
Background screening	95.1
Telephone consultation re: HR and personnel matters	95.1
Employee exit interview assistance	93.4
Pre-employment drug testing	91.8
Wage and salary compensation planning assistance	86.9
Performance review assistance/tracking	86.9
Recruitment/job placement	72.1
Employee surveys	70.5
Online training services for supervisors and employees	65.6
Personality testing	59.0
Turnover analysis and reporting	59.0
Professional licensing and certification tracking	45.9

Figure 2. HR administration costs, per employee



There are no strictly comparable numbers available for non-PEO clients; the best available comparison for such companies comes from Bersin & Associates and puts HR spending at $1,500 per employee within companies with fewer than 1,000 employees.[13] (No breakdown for smaller-size employers is available.) Given considerable economies of scale for larger companies in this group (since they can take advantage of their larger size to spread fixed costs over their entire employee population), this figure of $1,500 almost certainly underestimates the cost for very small businesses which, as noted above, represent the primary clients of PEOs.

Putting these numbers together (see Figure 2) tells us that a conservative estimate is that PEO clients enjoy a 21 percent savings on HR administration. This is true even as they enjoy a significantly higher level of services. For the typical PEO client – a small to mid-size employer – this savings is likely to be many times greater than this conservative, lower-bound estimate.

Considering both the broader services available and the cost savings realized from small businesses outsourcing their HR responsibilities, Peter Cappelli of the Wharton School at the University of Pennsylvania was quoted recently on this topic: "This is one of those rare instances that is both cheaper and better. It's a big burden on a local HR manager to know everything."[14] A similar point is made by Martin VanMeter of VanMeter Realty, a small realty company based in Durant, Oklahoma: "Working with a PEO has provided us an economical way of hiring people without the stress of paperwork and payroll. Our PEO is always available to answer questions or provide support to the employees."[15]

PEO Clients Grow Faster

Overall, the evidence described in the section above indicates that PEO clients spend less for more services and for greater expertise in HR service administration. These services provide key benefits for the businesses, such as greater capacity to attract and retain key employees. Beyond the lower costs and benefits discussed above, however, it's likely that the most fundamental reason the majority of small business owners hire PEOs is to relieve themselves of the major administrative burden associated with HR, thereby freeing themselves to do what they do best: focus on their business. The operations manager at a financial planning firm sums it up succinctly: "Our relationship with a PEO gives us the freedom to focus our attention on our clients."[16] Investment website SeekingAlpha.com echoed this point recently in a discussion of the services offered by ADP's PEO (TotalSource): "The value-add for PEO services is huge, especially since it allows busy owners to focus on business-centered operations rather than the often tedious day-to-day back office tasks."[17]

If PEOs are successful in enabling small businesses to focus more directly on what it takes to succeed in a competitive marketplace, it follows that PEO clients should grow faster than other comparable organizations. And, indeed, this is what the evidence shows.

The number of workers at PEO clients has grown more quickly than a variety of key comparisons. A leading firm in the PEO industry, Slavic 401(k), worked with Dr. Dragan Radulovic of Florida Atlantic University to develop a "PEO Employment Index" that has tracked changes in employment levels across thousands of PEO clients since December 2004. The index, which reflects the overall industry mix in the United States and is weighted by geography to also reflect the geographic distribution of U.S. companies, is based on employment at the company's PEO clients that offer 401(k) plans. As discussed earlier, virtually all PEOs (98 percent) offer some form of retirement plan, so this PEO Employment Index can be seen as representative of the broader population of all PEO clients.[18]

To best determine the impact of PEOs, we'd ideally compare PEOs' clients' employment growth with a similar measure for U.S. small businesses as a whole. The best source of information in this area[19] is the Intuit Small Business Employment Index, which was launched in 2007. It measures employment for businesses with fewer than 20 employees,[20] using an aggregated sample of small business clients that use Intuit's payroll services, supplemented with other information on payroll and self-employment from the U.S. Bureau of Labor Statistics.[21] Since the inception of the Intuit index, employment at PEO clients is more than 7 percent higher than at small businesses overall (see Figure 3).

Because the Intuit index launched two years after the PEO Employment Index was created in December 2004, it is not possible to make a small business comparison back to the inception of the PEO index. It is possible, however, to compare the PEO index to a broader measure: (nonfarm) employment growth in the United States as a whole (see Figure 4).[22] For this comparison measure as well, the results show faster growth for PEO clients, this time compared to the economy overall.

In addition, it should be noted that in the more than 3 years since employment among PEO clients "bottomed out" in early 2010 following the end of the recession, employment growth among PEO clients has been higher than for both of the two comparison groups: 9 percent higher than small businesses (based on the Intuit Small Business Employment Index), and 4 percent higher than employment growth in the U.S. economy overall.

Figure 3. Employment growth, PEO clients versus small businesses overall, January 2007 (date of Intuit index inception) = 1000

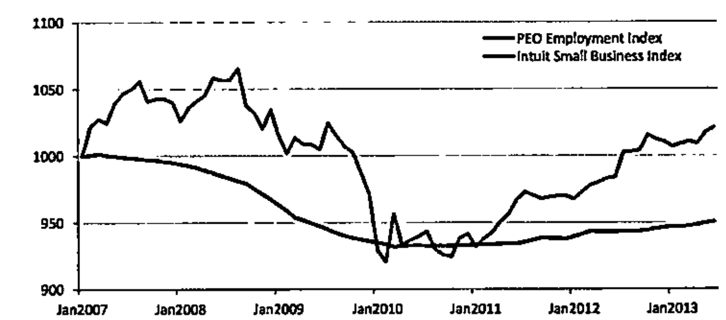
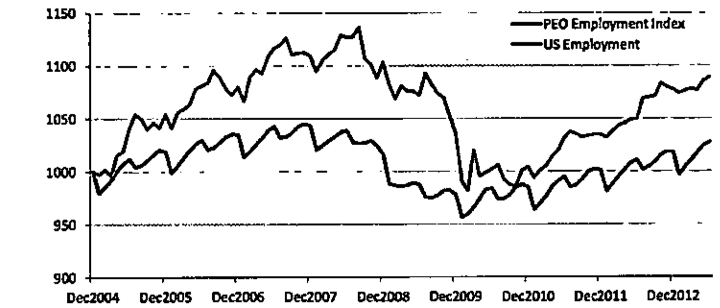


Figure 4. Employment growth, PEO clients versus U.S. employment overall, December 2004 (date of PEO index inception) = 1000



Conclusion

Overall, therefore, the evidence on employment growth suggests that PEOs are making it possible for their clients to grow more quickly than their peers – both other small businesses as well as all companies throughout the economy. This can be attributed to a variety of PEO-related factors discussed in this study. Employees in PEO arrangements have access to a broader array of HR-related benefits and services. Yet PEO clients spend less on HR administration than similarly-sized peers, freeing up money that can be reinvested in the business. Some of the benefits PEO clients are disproportionately able to offer – such as participation in employer-sponsored retirement plans – play a major role in helping businesses attract and retain their employees. This too can have a tangible impact on business success: it is easier to keep key high-value employees, while turnover-related costs are reduced. Finally, freed from many HR administrative burdens, executives and managers of PEO clients can focus more of their time on strategy and growth. These factors all combine to yield faster growth for PEO clients relative to other businesses.

Many of these points are illustrated through the experience of a single PEO client. "I am very happy with what our PEO has done for our company," says Phillip Grove, president and CEO of Seattle-based Confluex, a software professional services company. "By using a PEO, we have been able to grow, in a little over a year, from just the two founders to eight people across six states working from their homes. We expect to double this size within the next year. Our PEO allows us to mine a large talent pool for high quality software developers in a very competitive market, and it allows us to offer competitive benefits. Last but not least, thanks to the PEO, we don't have to learn all the day-to-day HR, workers' comp, tax, payroll, and compliance issues for a bunch of different states. This has relieved us from a big burden and allowed us to focus on our business."[23]

Endnotes

1 Theresa Welbourne, "Want to Make Money on IPOs? Learn About Companies' HR Management Strategies," *Workforce Management* (September 2010).

2 Boston Consulting Group/WFPMA, *From Capability to Profitability: Realizing the Value of People Management* (July 2012). This is not simply a case of "reverse causality." Rather, being a "people company" actually predicts future financial performance, even after controlling for the firm's past performance. In other words, this superior performance is not attributable to a firm's superior past performance.

3 This compares to an average of almost 20 for other companies. These figures are based on NCCI's analysis of its data on companies with workers' compensation policies (2007 Workers' Compensation Statistical plan data and Workers' Compensation Policy data, as reported to NCCI). Described in Harry Shuford, NCCI, "Don't Just Speculate, Investigate! The Story Behind the PEO Study," *https://www.ncci.com/Documents/Story_Behind_%20PEO_Study-NCCI_AIS_2013.pdf (May 16, 2013), p. 17.*

4 Steve Nyce, "Attraction and Retention: What Employees Value Most," *Towers Watson Insider* (March 2012), p. 2. *http://www.towerswatson.com/DownloadMedia.aspx?media={267F1391-E57E-48B0-9C5E-070B242032C6}.*

5 NAPEO, *2013 Financial Ratio & Operating Statistics Survey.*

6 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2011," *EBRI Issue Brief* (November 2012, no. 378), p. 36. *http://www.ebri.org/pdf/briefspdf/EBRI_IB_11-2012_No378_RetParticip.pdf.*

7 Jack VanDerhei, "Findings from the 2003 Small Employer Retirement Survey (SERS), *EBRI Notes*, September 2003, p. 1. This is the most recent version of the Small Employer Retirement Survey; EBRI confirmed it has not been conducted since 2003.

8 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2011," *EBRI Issue Brief* (November 2012, no. 378), p. 36 (*http://www.ebri.org/pdf/briefspdf/EBRI_IB_11-2012_No378_RetParticip.pdf*), combined with calculations of data provided by NAPEO from its *2012 Financial Ratio & Operating Statistics Survey*. The NAPEO results were gathered from PEOs using ranges (e.g., a PEO would report "26 to 50%" of it total worksite employees are covered by a retirement plan). For calculating overall percentages, we used the midpoint of each range.

9 Transamerica Center for Retirement Studies, "14th Annual Transamerica Retirement Survey of American Workers" (July 2013), *www.transamerica-center.org/resources/TCRS%2014th%20Annual%20Survey%20-%20Worker%20Full%20Report.pdf.*

10 Quoted by NAPEO, *www.napeo.org.*

11 See, for example, Harry Shuford, NCCI, "Don't Just Speculate, Investigate! The Story Behind the PEO Study," *https://www.ncci.com/Documents/Story_Behind_%20PEO_Study-NCCI_AIS_2013.pdf* and Mona Carter and Harry Shuford, NCCI, "NCCI's Update on PEO Performance," August 20, 2013, presentation.

12 NAPEO, *2013 Financial Ratio & Operating Statistics Survey.*

13 Karen O'Leonard and Stacey Harris, "Maximizing Your HR Spend," Human Resource Executive Online (June 2, 2011), *http://www.hreonline.com/HRE/view/story.jhtml?id=533338466.*

14 Adam Skolnick, "HR: Big Savings for Small Business," The Fiscal Times (July 23, 2013), *http://www.thefiscaltimes.com/Articles/2013/07/23/HR-Big-Savings-for-Small-Business.aspx.*

15 Quote provided to authors by NAPEO, September 3, 2013.

16 Quoted by NAPEO, *www.napeo.org.*

17 SeekingAlpha.com, "Automatic Data Processing Continues to Grow Faster Than Smaller Peers" (August 19, 2013), *http://seekingalpha.com/article/1645022-automatic-data-processing-continues-to-grow-faster-than-smaller-peers.*

18 Slavic 401(k) is a third-party administrator of retirement savings plans that specializes in offering plans for the PEO environment. Its index includes approximately 1,500 companies, each of which has between 2 and 99 employees, with an average size of approximately 20 employees. Additional information on the PEO Index is available at *http://www.slavic401k.com/peoindex/publication/index.html.*

19 The U.S. Bureau of Labor Statistics (BLS) also reports gross employment gains and losses by firm size through its Business Employment Dynamics data. The BLS data, however, are reported only quarterly and are reported with a 7-month delay. The Intuit index was designed in part to provide a more timely source of information on employment changes among small employers.

20 A technical note: given the different sizes of companies in their employer population, the PEO Employment Index (2 to 99 employees) and the Intuit Small Business Employment Index (fewer than 20 employees) are not strictly comparable, as the PEO index includes larger companies. However, there is not a more comparable index available, and the average firm size in the PEO index (20 employees per company) indicates that it tends to be weighted toward smaller companies as well.

21 A more detailed description of the Intuit Small Business Employment Index is available at *http://index.intuit.com.*

22 The overall U.S. growth rate of employment is derived from BLS data on total nonfarm employment (not seasonally adjusted). See *ftp://ftp.bls.gov/pub/suppl/empsit.compaeu.txt.*

23 Quote provided to authors by NAPEO, September 3, 2013.

About NAPEO

The National Association of Professional Employer Organizations (NAPEO) is The Voice of the PEO Industry™ and represents about 85 percent of the industry's estimated $92 billion in gross revenues. NAPEO has some 300 PEO members, ranging from start-ups to large publicly held companies with years of success in the industry, as well as some 200 service provider members. PEOs provide payroll, benefits, and other HR services to small and mid-sized businesses. Approximately 250,000 businesses and more than 2.5 million people are part of PEO arrangements. For more information about NAPEO, please visit *www.napeo.org*. You can also find us on Facebook at *www.facebook.com/napeo* and follow us on Twitter @NAPEO.

About McBassi & Company

McBassi is an independent analytics and research firm that helps clients create consistently profitable and enlightened workplaces. McBassi uses the language and tools of business – metrics and analysis – to build successful organizations by optimizing the power of their people. McBassi's principals (Dr. Laurie Bassi and Dan McMurrer) are co-authors of Good Company: Business Success in the Worthiness Era (winner of the 2012 Nautilus Gold Award for Business/Leadership) and the HR Analytics Handbook.

About the Authors

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Dan McMurrer is the chief analyst at McBassi. An analytics expert, Dan focuses on researching the relationship between organizations' work and learning environments and their business results. He holds an M.P.P. in public policy from Georgetown University.

NAPEO National Association of Professional Employer Organizations
NAPEO White Paper Series

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National Association
of Professional Employer Organizations

NAPEO White Paper Series

Professional Employer Organizations: Keeping Turnover Low and Survival High

By Laurie Bassi and Dan McMurrer
McBassi & Company

September 2014

Professional Employer Organizations: Keeping Turnover Low and Survival High

Executive Summary

In the 2013 report, "Professional Employer Organizations: Fueling Small Business Growth," a comprehensive analysis of existing economic data showed that small businesses in PEO arrangements have higher growth rates than other small businesses, and small business executives who use PEOs are better able to focus their attention on the core business. In further exploring the impact of PEOs and their potential to help small businesses better meet the challenges of today's demanding economic conditions, this follow-up study examines employee turnover and business survival rates for businesses using PEOs and compares them to national data available from the U.S. Bureau of Labor Statistics (BLS). Applying a variety of different data specifications, we consistently found that PEO clients have lower employee turnover rates and lower rates of business failure than comparable national averages, after controlling for factors such as industry, size, and state of location.

Table 1. Average differences in actual and expected employee turnover rates, PEO clients, 2012

	2012 (%)
Expected turnover rate (U.S. overall)[1]	*41.6*
Difference for PEO clients, controlling for industry	-9.7
Difference for PEO clients, controlling for company size group	-13.5

Table 2. Average differences between actual and expected annual business failure rates, PEO clients, using most conservative data specification.

	Annual Business Failure Rate (%)
Expected business failure rate (U.S. overall)[2]	*8.0*
Difference for PEO clients, controlling for industry	-4.0
Difference for PEO clients, controlling for state	-4.1

The employee turnover rate for PEO clients is 10 to 14 percentage points lower per year than that of comparable companies (see Table 1), depending on data specification. The average overall employee turnover rate in the United States was approximately 42 percent per year, based on 2012 data. It is 28 to 32 percent for companies that used PEOs for at least four quarters.

Businesses that use PEOs are approximately 50 percent less likely to fail (permanently go "out of business") from one year to the next when compared to similar companies in the population as a whole (see Table 2). The overall business failure rate among private businesses in the United States as a whole[3] is approximately 8 percent per year, based on 2012 data. It is approximately 4 percent per year for those companies that used PEOs for at least four quarters.

Data broken down by specific industries point to "Professional, Scientific, and Technical Services," "Construction," and "Finance and Insurance" as being three industry categories that disproportionately benefit from PEO services in both lower employee turnover rates and lower business failure rates.

Across all industries, the results reflect clear advantages for PEO clients on two of the most fundamental issues faced by any business: retention of employees and continued survival. PEOs significantly decrease employee turnover for their clients, allowing them to retain the knowledge and skills of their employees, while simultaneously reducing direct and indirect turnover-related costs (which are substantial). The fact that PEOs significantly increase the likelihood of client survival is likely a result of PEOs providing a combination of services that makes it possible for businesses to focus on their core areas of expertise.

Findings

Employee Turnover Rates

Employee turnover generates a variety of costs to employers, both direct and indirect. These include all costs related to hiring replacement employees, onboarding costs, and opportunity costs incurred during the period when positions are vacant. For many positions and many businesses, however, the (indirect) impact of losing the skills, knowledge, and expertise of valued employees may be significantly larger than any other (direct) turnover-related costs.

Table 3. Average differences in actual and expected employee turnover rates, PEO clients, 2012.

	2012 (%)
Expected turnover rate (U.S. overall)[7]	*41.6*
Difference for PEO clients, controlling for industry	-9.7
Difference for PEO clients, controlling for company size group	-13.5

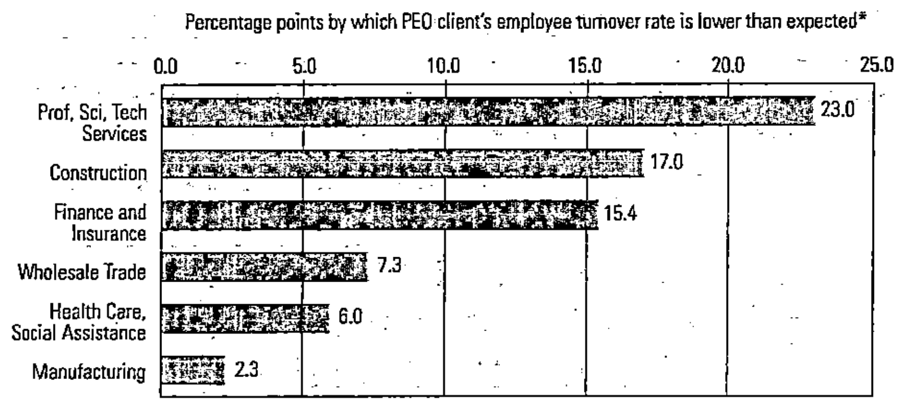
Table 4. Average differences in actual and expected employee turnover rates, PEO clients, by quarter.

	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Expected turnover rate (U.S. overall)[8]	*9.9*	*10.5*	*11.3*	*9.9*
Difference for PEO clients, controlling for industry	-3.1	-2.5	-3.3	-0.8
Difference for PEO clients, controlling for company size group	-4.4	-3.6	-3.4	-2.1

The exact cost of turnover is difficult to estimate, as it varies so significantly depending on specifics. A frequently cited estimate based on a "Cost of Turnover" worksheet[4] provided by the Society for Human Resource Management (SHRM) is that costs are roughly 150 percent of the employee's salary, with other calculations suggesting it is more than 200 percent for certain positions, such as managerial and sales jobs.[5] At the other end of the spectrum, alternative "conservative" calculations by O'Connell and Kung estimate the average cost of replacing an employee to be roughly $14,000 each.[6]

Regardless of which estimate is used, it is clear that the costs of employee turnover are quite significant, and that a business that enjoys a higher employee retention rate than its competitors is in a stronger position to survive and thrive over the long term.

Figure 1. Differences between actual and expected employee turnover rates, PEO clients, by industry.



* Larger numbers indicate greater advantage for PEO clients in that industry (i.e., *lower* employee turnover).

Overall annual results for 2012 are reported in Table 3, with results reported by quarter in Table 4. **In 2012, PEO clients had annual employee turnover between 10 and 14 percentage points lower than the national average of 42 percent per year, depending on the comparison group used.**

We also analyzed differences by industry. We did not have sufficient numbers to reliably calculate turnover differences for industries with fewer companies included in the analysis data file, and due to small sample sizes, we view these industry split results as suggestive rather than definitive. Figure 1 presents differences between expected and total employee turnover[9] by industry for the six largest industries[10] in the analysis data. Among these largest industries, we found that the largest salutary effects of PEOs on turnover rates occurred in "Professional, Scientific, and Technical Services" (23 percentage points lower) and "Construction" (17 percentage points lower). Smaller differences were observed in "Manufacturing" (2 percentage points lower) and "Health Care and Social Assistance" (6 percentage points lower).

Business Survival and Failure Rates

The ranges of aggregated actual versus expected survival values are reported in Table 5. **The positive values throughout the table indicate that PEO clients are more likely to survive, and less likely to fail, than similar companies in the population as a whole (controlling for year of inception, analysis year, and other factors, as indicated in the table), regardless of which analysis specification is being applied.**

The survival data indicate that 8 percent of all businesses fail each year. For PEO clients, the comparable percentage is between 2.1 and 4 percent, depending on the exact specification. Thus, annual business failure rates among PEO clients range from 4 to 5.9 percentage points lower than the rates for the population as a whole (50 percent or more lower). The results are quite consistent whether companies are compared to expected survival for their respective industries or states. Even using the most conservative analytic approach, the business failure rate is 50 percent lower for businesses using PEOs than for businesses overall, as highlighted in Table 6.

Table 5. Average differences between actual and expected business failure rates (%), PEO clients, multiple specifications.

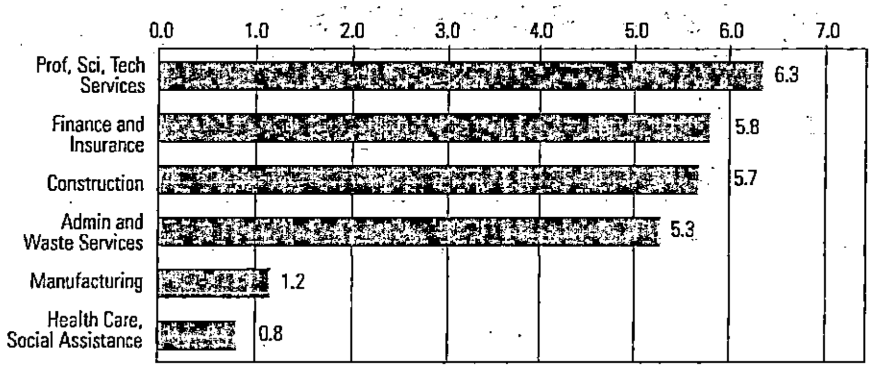
	Data Used in Analysis		
	Only companies with fully valid corporate status data	More conservative specification (also includes invalid inactives)	Most conservative specification (also includes additional unknowns)
Expected business failure rate (U.S. overall)[11]	*8.0*	*8.0*	*8.0*
Difference for PEO clients, controlling for industry	-5.8	-4.3	-4.0
Difference for PEO clients, controlling for state	-5.9	-4.4	-4.1

Table 6. Average differences between actual and expected business failure rates (%), PEO clients, by year, using most conservative specification.

	2010	2011	2012	2013
Expected business failure rate (U.S. overall)[12]	*9.2*	*7.8*	*7.7*	*7.6*
Difference for PEO clients, controlling for industry	-6.2	-2.7	-4.2	-3.6
Difference for PEO clients, controlling for state	-6.4	-2.8	-4.6	-3.3

Figure 2. Differences in actual and expected annual business failure rates, PEO clients, by industry, using most conservative specification.

Percentage points by which PEO client's business failure rate is lower than expected*



* Larger numbers indicate greater advantage for PEO clients in that industry (i.e., *lower* business failure rates).

It should be noted that the survival rates calculated for PEO clients reflect a relatively short-term effect of using PEO services (for example, the longest difference in the analysis file between PEO use and calculated survival would be slightly over four years, for a firm using PEOs for four quarters in 2008, and then having its survival assessed in 2013 Q1).

We also examined industry-specific differences to identify which industries see the largest and smallest impacts from PEO services. We did not have sufficient numbers to reliably calculate survival variations for industries with fewer companies included in the analysis data file. Figure 2 presents differences between expected and total business failure rates[13] by industry for the six largest industries available[14] in the analysis data. Even for these larger industries, due to the smaller sample sizes, we recommend viewing these results as suggestive rather than definitive.

Among these largest industries, we found that the largest effects of PEOs on business failure rates occurred in "Professional, Scientific, and Technical Services" (business failure rate 6.3 percentage points lower than expected) and "Finance and Insurance" (5.8 percentage points lower). Smaller differences were observed in "Health Care and Social Assistance" (0.8 percentage points lower) and "Manufacturing" (1.2 percentage points lower).

Analysis Specifications

Employee Turnover Rates

We selected a stratified random sample of 1,000 companies from the Slavic database for analysis of employee turnover rates. (Because Slavic firms tend to be larger than average establishments nationally, we chose a sample designed to include a larger percentage of the smaller firms in the Slavic database). To enable quarterly turnover analysis, all companies in the sample were required to have at least one employee payroll record in each quarter from 2012 Q1 to 2013 Q1. This allowed us to analyze employee turnover for 2012, the most recent full calendar year available for analysis in the Slavic database.[18] Based on this definition, turnover is being calculated only for companies that are current PEO clients.

We examined employee-level records from 2012 Q1 to 2013 Q1 for all employees for each company included in the sample. The periodicity of payroll records varied across companies; some reported multiple times per month for each employee, while others reported less frequently. We chose to conduct a quarterly analysis based on the expectation (from guidance provided by Slavic401k) that companies would report at least one payroll record per quarter for each individual employee.

Any quarter in which an employee had a payroll record in the Slavic database was interpreted as a quarter in which that employee was employed by a given company. Any quarter in which an employee did not have a payroll record in the Slavic database was interpreted as a quarter in which that employee was not employed. If an employee went from employed status in one quarter to not employed status in the following quarter, that was considered a "separation" (or turnover) for the first quarter. For example, if an employee was employed by Company 1 in 2012 Q1 and 2012 Q2, but not employed in 2012 Q3, that employee was classified as having separated (left the employment of) Company 1 sometime in 2012 Q2.

Consistent with the BLS definition of separation rate, we then divided the total number of separations in each quarter by the total level of employment (number of different employees) for each company to calculate a quarterly turnover rate.

Methodology

Data Used

The foundation of our data analysis was based on data provided by Slavic401k, a major third-party administrator of 401(k) retirement plans that specializes in providing such plans for PEO clients. Slavic's large scope ensured that these data represented a broad cross-section of companies that use PEO services. The data included more than 12 million employee payroll records and more than 5,000 PEO client companies from 2008 to 2013.

The Slavic data were used to determine the following information about PEO client companies:

- When PEO services were used;
- The number of unique employees, by quarter (including information on whether each employee remained employed from one quarter to the next);
- Whether the company was known to be active (i.e., still a Slavic client) as of the end of 2013; and
- Basic company information (name, location, and date of incorporation).

The data were then matched with additional company-level information, drawn from the following sources:

- Dun & Bradstreet corporate database for information on each company's industry, as well as supplemental information about date of incorporation; and
- Separate state-level databases (typically maintained by the office of the secretary of state in each state)[15] for information about the current corporate status of those companies that exited the Slavic database before the end of 2013 (i.e., whether the company is currently "active" or "inactive").[16]

Finally, we compared aggregated results from the company-level data above to national averages drawn from the following publicly available BLS data:

- Business Employment Dynamics statistics for year-to-year firm survival rates, based on firm date of inception, and including breakdowns by year, state, and industry; and
- Job Openings and Labor Turnover Survey (JOLTS) data for average turnover rates by month, including breakdowns by firm size and industry.

While we took a variety of steps in the analyses described below to ensure that the comparisons between the Slavic companies and the overall U.S. population were as valid as possible, it should still be noted that it is possible that Slavic clients are not representative of PEO clients as a whole. Most notably, it may be that clients that offer 401(k) retirement plans to their employees vary in other respects as well when compared to clients that do not offer such retirement plans. However, because nearly all PEOs (98 percent) offer some type of retirement plan to their clients,[17] we are comfortable that the Slavic401k data are indeed reasonably representative of the clients of the PEO industry overall.

We then compared each company's turnover rate to the overall national average broken down by two variables. For turnover data, national data are available by industry and by size (but not by state). There are a number of key differences in the BLS industry data and the BLS size data. The industry data are official BLS data and are not seasonally adjusted to account for regular seasonal fluctuations in employment levels. In this way, they are a better match for the data derived from the Slavic file, which are also not seasonally adjusted. However, some of the industry groups used for the BLS industry data do not precisely match the standard industry categories available for the companies in the data file.

The data by size are relatively new and are classified as "experimental" (unpublished) data by BLS and are seasonally adjusted.[19] It should also be noted that these data are calculated at the "establishment" (typically location) level, while the Slavic data are primarily at the firm level (and could therefore include multiple establishments). This should not affect the capacity to compare turnover rates overall, although there could be some effect on specific size-based breakdowns.

The analysis by company size was conducted on the full 1,000-company sample. The analysis by industry includes 742 companies, excluding those firms for which available industry information from the Dun & Bradstreet corporate database was either not available or did not align with the BLS industry groups used for reporting turnover.

Business Survival and Failure Rates

We analyzed annual year-over-year business survival and failure from 2010 to 2013 for all "company-years" (e.g., Company 1 in 2012, Company 1 in 2013, Company 2 in 2013) in the Slavic database that had the following characteristics:

- Starting in 2008 Q1 (the beginning of the available data from Slavic), at least four consecutive quarters of using PEO services at any point *prior to* the year being analyzed;[20]
- Located in one of the 24 states with the largest number of company records in the Slavic database and company status data available through state databases;[21] and
- Incorporated in 1994 or later (1994 is the earliest year for which BLS has survival rates available for later years).

For each company-year that met the criteria above, we then determined the firm's survival status and assigned a "survival status value." Companies that were still active in the Slavic file at the end of 2013 or those classified as "active" (or similar, such as "good standing") in the state corporate database through the first quarter of a given year were considered to have "survived" and were assigned a survival status value of 100 (percent).

Companies that were classified as "inactive" (or "not in good standing") were assigned a survival status value of 0 for the first calendar Q1 in which they were no longer active (this date was determined based on state-provided information on last date of corporate activity). A survival status value of 0 is assigned for a single year to each inactive company for the year in which the business was determined to have failed and the company is then excluded from analysis in all subsequent years.

Because the characteristics of the companies available for analysis from the Slavic database do not match national averages (for factors such as year of inception, state, industry, and size), we compared each company's survival status value with BLS's reported average national "survival rate of previous year's survivors" for the appropriate analysis year and inception year cohort, broken down by either industry or state. This allowed us to calculate, for each company-year, the difference between its actual survival status and its expected survival status. Calculating the rates in this way ensures that differences in industry or state distribution across companies in the analysis database do not affect aggregate results. Finally, when we aggregated the company data to overall averages, we weighted the sample by size group to be consistent with the size distribution of companies in the United States.

So, for example, if Company 1 survived into 2012, its survival status value would be 100 for 2012. If the average survival rate of previous year's survivors was 95.5 percent in Company 1's industry, the difference between actual and expected survival status, based on industry, for Company 1 would be 4.5 for 2012. If Company 1 did not survive into 2013 and the average industry survival rate of previous year's survivors was 97.1, the difference between actual and expected survival status would be -97.1 for 2013. We then convert these survival numbers into their corresponding business failure rates for purposes of discussion.

When differences between actual and expected survival rates are averaged across all firms in the analysis database, a positive average survival number indicates that PEO clients have a higher-than-expected rate of survival and a lower-than-expected rate of business failure. A negative average survival number would indicate that PEO clients have a lower-than-expected rate of survival and a higher-than-expected rate of business failure.

Data Issues

We calculated survival rates using multiple specifications that were designed to account for the effects of various imperfections in the available data. There were two major categories of imperfections:

- Some inactive firms had apparent mismatches between date of incorporation and date of corporate failure (e.g., the listed failure date was earlier than the listed date of incorporation); and
- The status of some companies was not available or could not be found in the state corporate databases; these companies were classified as "unknown" in the original analysis file while additional adjustments were made subsequently, based on further company-by-company research.

Multiple analysis specifications

The alternative specifications we used were designed specifically to adjust for factors that could be overstating advantages for PEO clients.

In particular, because the first category of mismatches cited above only affected inactive firms (it affected approximately one-third of all inactive firms in the analysis file), it would have the effect of overestimating survival rates and underestimating failure rates for PEO clients when those invalid records were (of necessity) excluded from the original analysis file. So, for one (more conservative) alternative specification, we calculated a "worst case scenario" in which *all* of the affected firms were classified as "business failures" that had failed in one of the four analysis years (randomly assigned to occur equally across the four years, with no corresponding survival in any previous years added to the database).

The underlying effect of the second data issue above (companies with an operational status of "unknown") was less clear, as it was not known whether these "unknown" companies were primarily active or inactive. Nevertheless, it seemed likely that some significant percentage of this set of companies would be inactive. For companies affected by this issue, we therefore conducted additional research in an attempt to ascertain the status of those companies not available through the state databases. This research included web searches as well as telephone calls to business phone numbers in an attempt to ascertain current status. A second ("most conservative") alternative specification included as many as possible of these "unknown" companies, classified as either active or inactive. For inactive companies, we followed the same conservative technique as we did for the mismatched invalid companies—we assigned business failure to each firm in one of the four analysis years (and did not consider the firms to have survived in any other years).

In addition, apart from the issues above, the BLS data on survival rates also had quality issues that primarily affected certain industries and certain data for the year 2013.[22] We communicated directly with BLS to understand the source of the issues, with a particular focus on some reported BLS data that were clearly erroneous. Based on their explanation and guidance, we chose to exclude certain data points from the analysis, although it was not possible to entirely remove the effects of the problem from the BLS data in this area.[23] It should be noted that all of these errors tended to overestimate national survival rates as reported by BLS (and thus *reduce* the estimation of any advantage PEOs might provide to their clients).

Overall impact of data issues and multiple analysis specifications

The data uncertainties described above make it unclear which analysis specification is most accurate. Taken together, however, the three specifications (as well as separate calculations using state and industry comparisons) provide a range of estimates of survival rates among PEO clients that can be viewed as providing a floor and ceiling on the actual number. The first specification in Table 5 overstates survival (because we know it excludes some inactive companies due to inconsistencies in their data). The second and third specifications, however, likely understate actual survival, because they assign corporate failure dates to inactive companies without allowing for the possibility that they had first survived for any years prior to their failure. As noted, the unquantifiable errors in the BLS data also have the effect of understating any advantage that PEO clients might have in terms of reducing business failure.

We rely on the most conservative specification (listed in the right column of Table 3 as the most analytically responsible for summarizing the analysis results) because it yields the lowest estimates of the advantage generated by PEOs. We use this specification as the basis for all of Tables 2 and 6. This file is also the largest sample, including 4,508 company-years when compared with industry survival rates and 4,798 company-years when compared with state survival rates.

Endnotes

1 Sum of monthly turnover rate average for all private employers, as reported by BLS.

2 U.S. overall number controls for year of inception, year of analysis, and industry, and is weighted identically to the sample weighting described in this report.

3 For purposes of this paper, we define "business failure rate" as the percentage of businesses that do not survive in a given year. On average, 92 percent of all businesses from one year survive into the following year, so the business failure rate is, correspondingly, 8 percent annually.

4 The SHRM worksheet is available at *www.shrm.org/templatestools/samples/hrforms/articles/pages/1cms_011163.aspx.*

5 William G. Bliss, "Cost of employee turnover," *The Advisor* (2004). *http://hrtogo.com/pdf/turnover-cost.pdf.*

6 Matthew O'Connell and Mei-Chuan Kung, "The Cost of Employee Turnover," *Industrial Management* 49:1 (January/February 2007).

7 Sum of monthly turnover rate average for all private employers, as reported by BLS.

8 Sum of monthly turnover rate average for all private employers, as reported by BLS.

9 Reported differences are the averages of company differences from expected turnover compared to industry averages and size group averages. They are calculated only for companies with expected values based on both their industry and size group (this excludes some industries for which comparable data are not available in the BLS-reported industry turnover data; "Administration and Waste Services" is the largest such industry in the data file).

10 Sample sizes for these industries (based on the size group analysis) were: "Professional, Scientific, and Technical Services" (172); "Health Care and Social Assistance" (112); "Finance and Insurance" (86); "Manufacturing" (81); "Wholesale Trade" (61); and "Construction" (60).

11 U.S. overall number controls for year of inception, year, and industry, and is weighted identically to the sample weighting described above.

12 U.S. overall number controls for year of inception, year, and industry, and is weighted identically to the sample weighting described above.

13 Reported differences are the averages of company differences from expected failure rates compared to industry averages and size group averages. They are calculated only for companies with expected values based on both their industry and size group (this excludes some industries for which comparable data are not available in the BLS-reported industry data; "Administration and Waste Services" is the largest such industry in the data file).

14 Unweighted sample sizes for these industries were: "Professional, Scientific, and Technical Services" (1,105); "Health Care and Social Assistance" (461); "Administrative and Waste Services" (458); "Manufacturing" (400); "Finance and Insurance" (354); "Construction" (335).

15 This process involved searching state records by company name and location. In those cases in which exact matches were not found, we examined a variety of other measures, including date of incorporation, similarity of name, and geographic proximity of reported location. We used a conservative methodology in which we did not classify a company as a match unless we had significant certainty that we had located the same entity, even if some specifics were not exact matches.

16 All companies still active in the Slavic database at the end of 2013 were, by definition, classified as active for purposes of the analysis in this paper, which ends in 2013.

17 NAPEO, *2013 Financial Ratio & Operating Statistics Survey.*

18 As discussed below, to determine employee separations, turnover analysis requires employee data from at least one quarter after the analysis period, so 2013 analysis was not possible based on the available data.

19 The firm size data break companies into six categories: 1 to 9 employees; 10 to 49; 50 to 249; 250 to 999; 1,000 to 4,999; and 5,000 or more employees.

20 Use of PEO services for a given quarter was determined by the presence of at least one payroll record in the Slavic database.

21 Because company status needed to be determined through manual research in each state's unique online corporate database, we selected the 25 states with the largest numbers of companies to maximize the number of companies included while reducing the number of states where it would be necessary to learn database details. Massachusetts was included in the original 25 states, but companies in that state were ultimately excluded from the analysis because corporate information provided by Massachusetts is insufficient to determine a company's current status.

22 BLS indicated that the data problems stemmed primarily from two issues: year-to-year counts for companies with multiple establishments in a given state; and reclassification of some establishments from one industry category to another that had not been treated consistently across states.

23 We removed all BLS data reporting a survival rate of over 100 percent (a mathematical impossibility) as well as all data from a small number of industries classified by BLS as most affected by the error. Other data also overstated survival rates, but it was not possible to quantify the extent of the error, so we used all remaining data.

About McBassi & Company

McBassi is an independent analytics and research firm that helps clients create consistently profitable and enlightened workplaces. McBassi uses the language and tools of business—metrics and analysis—to build successful organizations by optimizing the power of their people. McBassi's principals (Dr. Laurie Bassi and Dan McMurrer) are co-authors of "Good Company: Business Success in the Worthiness Era" (winner of the 2012 Nautilus Gold Award for Business/Leadership) and the "HR Analytics Handbook."

About the Authors

Dr. Laurie Bassi is CEO of McBassi and a global leader in the field of applying analytics in the world of HR. Laurie is the author of more than 90 published papers and books and was previously a tenured professor of economics and public policy at Georgetown University. She holds a Ph.D. in economics from Princeton University.

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NAPEO
National Association of Professional Employer Organizations
NAPEO White Paper Series

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TO: NH Senate Commerce Committee

RE: Senate Bill 211

DATED: February 17, 2015

Please accept my written testimony in support of Senate Bill 211.

I am Brian Godzyk, the managing member of Amoskeag Maintenance Services, LLC. We are a landscaping, property maintenance and snow removal company based in Manchester, New Hampshire. We employ 20 persons. Amoskeag Maintenance has leased its employees from Surge Resources since 2006.

We decided to lease our employees because I wanted to focus on growing my business while leaving all my employment administration and compliance work to Surge.

The New Hampshire Business Enterprise Tax is built into my pricing with Surge; one of the component parts of my weekly invoice is the BET rate (0.75%) applied to my company's gross wages for that week. So, you see, in the end, my company, the client, is in fact already paying the BET on my payroll.

Under current law, however, Surge remits the BET to the State, and, I suppose, could use the BET to offset Surge's Business Profits Tax.

The inability of my company to use the BET credit has been an issue between Surge and Amoskeag from time to time. For me, this system results in lost opportunity for my company.

My company's inability to claim the BET tax, and, potentially, use a credit to offset the BPT means:

- I'm paying more in tax than my non-leasing competitor who can use the credit;
- I'm missing an opportunity to improve my fleet of trucks, machines, hand tools; OR
- I'm missing an opportunity to add an employee to help with my busy work load;

For these reasons, I urge the Committee to support Senate Bill 211 and allow a client of a leasing company, if they choose, to remit, declare and make use of the Business Profits Tax just as non-leasing companies can now do. This change will 'level the playing field' with my non-leasing competitors and create an opportunity for my company to reinvest in improved or additional equipment and/or add an employee to my work force.

Thank you for your attention,

Brian Godzyk, Member
Amoskeag Maintenance Services, LLC

Committee Report

STATE OF NEW HAMPSHIRE
SENATE

REPORT OF THE COMMITTEE
FOR THE CONSENT CALENDAR

Date: February 20, 2015

THE COMMITTEE ON Commerce

to which was referred Senate Bill 211-FN

AN ACT relative to taxation of employee leasing companies under the business enterprise tax.

Having considered the same, the committee recommends that the Bill:

OUGHT TO PASS WITH AMENDMENT

BY A VOTE OF: 5-0

AMENDMENT # 0510s

CONSENT CALENDAR VOTE: 5-0

Senator Jeb E. Bradley
For the Committee

This bill allows an employee leasing company and a client company to elect to make the client company solely responsible for paying Business Enterprise Taxes concerning its leased employees and be eligible for credits against such taxes. As amended by the committee, the a client company may elect to authorize the employee leasing company to act as an agent for the client company for purposes of collecting and paying the tax, provided the client company files the appropriate forms.

Patrick Murphy 271-8631

New Hampshire General Court - Bill Status System

Docket of SB211

Docket Abbreviations

Bill Title: relative to taxation of employee leasing companies under the business enterprise tax.

Official Docket of **SB211**:

Date	Body	Description
1/29/2015	S	**Introduced** and Referred to Commerce; **SJ 5**
2/4/2015	S	Hearing: 2/17/15, Room 100, SH, 1:20 p.m.; **SC9**
2/20/2015	S	Committee Report: Ought to Pass with Amendment **#2015-0510s,** 3/5/15; Vote 5-0; CC; **SC11**
3/5/2015	S	Committee Amendment 0510s, AA, VV
3/5/2015	S	**Ought to Pass with Amendment** 0510s, MA, VV; OT3rdg; **SJ 7**
3/11/2015	H	Introduced and Referred to Ways and Means; **HJ 26**. PG. 1274
3/17/2015	H	Public Hearing: 3/24/2015 11:00 AM LOB 202
3/25/2015	H	Full Committee Work Session: 3/31/2015 10:00 AM LOB 202
3/25/2015	H	==RESCHEDULED== Work Session: 3/31/2015 10:00 AM LOB 202
4/1/2015	H	Subcommittee Work Session: 4/9/2015 9:45 AM LOB 202
4/2/2015	H	Executive Session: 4/9/2015 11:30 AM LOB 202
4/17/2015	H	Committee Report: Ought to Pass with Amendment **#2015-1240h** for Apr 29 (Vote 19-0; RC); **HC 32**, PG. 1489
4/29/2015	H	Amendment #1240h: AA VV; **HJ 36**, PG. 1595
4/29/2015	H	**Ought to Pass with Amendment** #1240h: MA VV; **HJ 36**, PG. 1595
6/4/2015	S	Sen. Prescott Concurs with House Amendment #1240h, MA VV; **SJ 17**
6/24/2015	H	Enrolled
6/24/2015	S	Enrolled (In recess 6/24/2015); **SJ 19**

NH House NH Senate

Other Referrals

New Hampshire Department of Revenue Administration

Fiscal Note Quick Guide

15-0634

SB 211-FN, *relative to taxation of employee leasing companies under the business enterprise tax*

Senate Commerce Committee

Under existing New Hampshire Labor law, RSA Chp. 277-B, an employee leasing company and client company are deemed co-employers and divide employment responsibilities under RSA 277-B:9. More specifically, RSA 277-B:9, I (h) requires the employee leasing company to pay the Business Enterprise Tax (BET) imposed by RSA 77-E and include in its compensation portion of the base tax those wages paid to its leased employees. This bill would allow an employee leasing company and a client company to elect to make the client company solely responsible for paying the BET concerning its leased employees and be eligible for credits against such taxes.

The Department of Revenue Administration is unable to estimate the fiscal impact of this bill because the Department does not know what companies would make such an election and if those companies would be liable for BET and/or Business Profits Tax (BPT). The Department cannot predict the difference in business tax liabilities between the leasing company and the client company in order to determine the impact of switching the BET responsibility from the leasing company (which could have large BET liabilities, but not much BPT liability) to the client company (which could have minimal BET liabilities, but larger BPT liabilities). For example, a leasing company could have paid $1,000 in BET and $500 in BPT = $1,500 in revenue and:

- An election is made to shift the BET liability to the client company, but the client company does not meet the BET threshold and has a BPT liability of $1,000.
- An election is made to shift the BET liability to the client company and the client company pays $500 in BET, but does not have a BPT liability to use a BET credit.
- An election is made to shift the BET liability to the client company and the client company pays $1,000 in BET and has a $1,000 BPT liability that is offset by the BET credit.

The Department notes that if the client company does not pay the BET on the wages paid to the employees on loan from a leasing company, then the leased employees should not "be deemed employees of the client company" as stated on page 2, section 2, new law RSA 277-B:17-a.

This bill would take effect on July 1, 2015 and the Department could administer this bill without incurring any additional costs that could not be absorbed in its budget.

COMMITTEE REPORT FILE INVENTORY

SB 211-FN ORIGINAL REFERRAL ______ RE-REFERRAL

1. THIS INVENTORY IS TO BE SIGNED AND DATED BY THE COMMITTEE AIDE AND PLACED INSIDE THE FOLDER AS THE FIRST ITEM IN THE COMMITTEE FILE.
2. PLACE ALL DOCUMENTS IN THE FOLDER FOLLOWING THE INVENTORY IN THE ORDER LISTED.
3. THE DOCUMENTS WHICH HAVE AN "X" BESIDE THEM ARE CONFIRMED AS BEING IN THE FOLDER.
4. THE COMPLETED FILE IS THEN DELIVERED TO THE CALENDAR CLERK.

✓ DOCKET (Submit only the latest docket found in Bill Status)

✓ COMMITTEE REPORT

✓ CALENDAR NOTICE

✓ HEARING REPORT

✓ HANDOUTS FROM THE PUBLIC HEARING

✓ PREPARED TESTIMONY AND OTHER SUBMISSIONS

✓ SIGN-UP SHEET(S)

ALL AMENDMENTS (passed or not) CONSIDERED BY COMMITTEE:

✓ - AMENDMENT # 0510s ____ - AMENDMENT # ______
____ - AMENDMENT # ______ ____ - AMENDMENT # ______

ALL AVAILABLE VERSIONS OF THE BILL:

✓ AS INTRODUCED ____ AS AMENDED BY THE HOUSE
✓ FINAL VERSION ✓ AS AMENDED BY THE SENATE

✓ OTHER (Anything else deemed important but not listed above, such as amended fiscal notes): ______________________

DATE DELIVERED TO SENATE CLERK 8-19-15 ______

Patrick J Murphy
BY COMMITTEE AIDE

Revised 2011