



**Written Testimony in Support of House Bill 2236 with -2 Amendments
Before the House Committee on Labor and Workplace Standards
National Association of Professional Employer Organizations**

March 31, 2025

Chair Grayber, Vice Chairs Elmer and Muñoz, and Members of the Committee:

Thank you for your consideration of the -2 amendments to HB 2236, which ensures a stable regulatory environment for professional employer organizations (PEOs) and their clients in Oregon.

The National Association of Professional Employer Organizations (NAPEO) is the largest trade association for the PEO industry. NAPEO represents approximately 500 PEOs in the United States providing services to more than 200,000 small and mid-size businesses, employing approximately 4.5 million people. The PEO industry's 200,000 clients represent 17 percent of all employers with 10 to 99 employees.

PEOs are champions for small businesses and their employees. PEOs provide comprehensive human resources (HR) solutions to small and mid-size businesses. The average PEO client has between 10-15 employees. Payroll, benefits, HR, workers' compensation, employment tax remittance and regulatory compliance assistance are some of the many services PEOs provide to growing businesses **In Oregon, NAPEO serves more than 3,000 small businesses employing over 31,000 employees.**

Background

Last year, the Oregon Employment Department (OED) approached our industry with a rulemaking proposal that would have reversed over 36 years of unemployment insurance (UI) reporting precedent and would require PEO small business clients to report UI taxes under their own account instead of allowing PEOs to continue handling UI reporting as they have for decades. Many small businesses rely on PEOs to handle UI reporting to reduce administrative burdens. That's what PEO's were created to do – to help small businesses manage regulatory complexities. But the proposed UI reporting change would require small businesses to navigate complex UI reporting registration and account management on their own, creating confusion and compliance risks. This is especially true for small businesses that lack the administrative capacity to handle this, putting them at risk of compliance errors and penalties.

Oregon's current **UI reporting system has been effective, legally compliant and beneficial** for businesses and workers since 1989. Under the current system, many PEOs report all Oregon and federal payroll taxes under a consolidated tax return which also affects new hire reporting, multiple worksite reporting, employee garnishment orders and annual reporting of W2s. If there was a reporting change requiring client companies to report UI wages under their account, it would create inconsistencies, misalignment, and would result in administrative burdens and compliance challenges. Moreover, as the W2s created for federal and Oregon purposes must match, changing the reporting level for Oregon state and local withholding would create significant information disparities between the IRS and Oregon.

NAPEO brought our concerns to the OED and began conversations last fall to address the potential impacts a reporting change would have on the industry and our small business clients. NAPEO was concerned that disrupting the current model would harm Oregon's small business community by creating unnecessary administrative burdens, possible tax increases and undermine the benefits that PEOs provide to their clients. We asked the OED to consider memorializing the current UI reporting system for the PEO industry, which reduces compliance risk, increases business stability and reduces costs for small businesses. Through conversations with the OED and Representative Shelly Boshart Davis, we gained alignment on bill language before you that achieves NAPEO's goal of maintaining the existing UI reporting system and avoids reprogramming or operational changes for FRANCES Online.

The -2 Amendment Addresses UI Reporting

The -2 amendment guts HB 2236 and replaces the base bill with language that is specifically tailored to UI reporting for PEOs. The amendment does not change how wages are reported for the Paid Leave Oregon program and only addresses SUTA reporting. The amendment was negotiated with the OED to reduce the chance of unintended consequences for both PEOs and the OED, and to ensure that proposed language does not create new programming needs or operational challenges for the OED within the FRANCES system.

For the last three decades, Oregon has allowed PEOs to report payroll taxes at the PEO level or the client level, similar to reporting in Colorado, New Jersey and Kentucky, among many other states. The -2 amendment provides statutory clarity that PEOs can continue to report SUTA at the PEO level or client level, in accordance with existing practice in Oregon. This certainty will prevent disruption of services to our clients and allow PEOs to continue supporting small businesses in navigating regulatory complexities as they have for over 36 years.

The language in the -2 amendment reflects conversations and a collaborative effort with the OED. The amendment makes technical changes to the bill that were deemed necessary or were requested by the OED to ensure alignment with NAPEO's goal of codifying current PEO SUTA reporting practices and existing Oregon statutes.

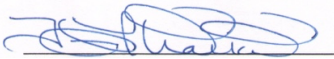
Recognition of Need to Update Terminology

NAPEO is also committed to working with legislative counsel, OED and the Department of Consumer and Business Services (DCBS) to address outdated terminology for the industry— as currently defined “worker leasing company”—in the -2 amendment. Although commonly referred to as “PEOs” or “professional employer organizations,” industry participants in Oregon have long been termed “worker leasing companies” and are subject to licensure pursuant to ORS 656.850. This antiquated terminology was adopted in 1993 by the Oregon legislature and is under consideration this session in HB 2800 which will modernize and update the statutory language to be more reflective of current PEO practices and terminology. The -2 amendment was drafted based on existing statutory language, but if HB 2800 proceeds this session, NAPEO anticipates we will have the opportunity to bring the terminology in HB 2236 into alignment with the updated terminology — “professional employer organization”— found in HB 2800.

For these reasons, NAPEO respectfully requests your support for HB 2236 with the -2 amendment which will provide small businesses with the regulatory certainty they’ve relied on for decades.

If you have any questions or if I can provide additional information, please do not hesitate to contact me. Thank you for your consideration.

Respectfully,



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