HB 4005 PEO's should not combine employees for company experience rates
Senate Committee on Finance and Revenue – John Calhoun – 2.12.2024

My name is John Calhoun and I am representing Tax Fairness Oregon, a network of volunteers who advocate for a rational and equitable tax code.

Professional Employment Organizations can provide small companies with comprehensive HR services, including making tax and benefits payments on the business' behalf. About 10 years ago when I was a CFO and managing partner of a company with about 60 employees, I was approached by a PEO soliciting our business. It was an intriguing proposal but did not fit our needs at the time and I did not pursue it. However, it gave me some sense of how they operate.

HB 4005 is before this committee to resolve the issue of whether taxes should be filed under the client's tax ID or that of the PEO. If PEO's file unemployment taxes for a client company under the PEO's tax ID, then the client company's record is pooled with other companies that are clients of the PEO. This is also the case if workers comp claims are pooled as part of the PEO.

Rates for unemployment and workers comp depend upon the work experience of a business. A company that has high employee turnover resulting in unemployment claims should pay higher unemployment taxes than a more stable company. The same goes with accident rates. The logic is that management practices or the nature of the industry tend to determine these experience rates. A practice of combining different companies into one pool through a PEO means that some companies are paying more than they should and some less. This is a bad incentive system.

21 other states have laws preventing this pooling practice for unemployment and workers comp. Oregon should do the same. If it works in other states, we should be able to make it work in Oregon. I also understand that this is a complex issue and HB 4005 is complex legislation. I would understand the value of establishing a work group to further debate the details.

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