

New PEO Federal Bond

What is a PEO?

A PEO is a Professional Employer Organization. PEOs provide human resource services such as employee benefits, payroll, taxes, and worker's compensation for small businesses. For more information visit:

<http://www.napeo.org/what-is-a-peo>

- Approximately 40 states require a PEO to go through a licensing or registration process.
- Roughly 20 of those states require a state license and permit surety bond.
- There are an estimated 700-800 PEOs in business.
- PEOs have been operational for approximately the last 30 years.

What is NAPEO?

NAPEO is the National Association of Professional Employer Organizations. NAPEO is the largest trade association for PEOs nationwide with approximately 300 members. NAPEO's purpose is to provide resources for its members such as networking and referrals, education, and public relations and marketing support. NAPEO has also been one of the largest advocates of additional legislation, and therefore, legitimization for the industry. They worked closely with the SFAA to create the new IRS certification and the Small Business Efficiency Act (SBEA).

- Represents approximately 80% — 90% of the PEO business conducted.
- Maintains industry standards for PEOs.
- Offers associate membership (\$950 annually) for companies that provide services to the PEO industry.

What is the new federal bond?

The upcoming Small Business Efficiency Act will write PEOs into the IRS code, but to get this IRS certification, PEOs will have to post a new surety bond. This new certification will allow a PEO to collect and remit federal tax payments to the IRS on the organization's behalf.

- Not all PEOs will need to post this bond. Just ones that want to be recognized in the tax code as their clients' employer with the purposes of collecting and remitting taxes with the IRS.
- Bond amount will need to be up to 5% of the PEOs federal employment tax liability, up to a ceiling of \$1 million. There is a minimum requirement of \$50,000.
- Bond will be required by Jan. 1, 2017.

SBEA bond language:

(c) **BOND AND INDEPENDENT FINANCIAL REVIEW.**—

(1) **IN GENERAL.**—An organization meets the requirements of this paragraph if such organization—

(A) meets the bond requirements of paragraph (2), and

(B) meets the independent financial review requirements of paragraph (3).

(2) **BOND.**—

(A) **IN GENERAL.**—A certified professional employer organization meets the requirements of this paragraph if the organization has posted a bond for the payment of taxes under subtitle C (in a form acceptable to the Secretary) that is in an amount at least equal to the amount specified in subparagraph (B).

(B) **AMOUNT OF BOND.**—For the period April 1 of any calendar year through March 31 of the following calendar year, the amount of the bond required is equal to the greater of—

- (i) 5 percent of the organization's liability under section 3511 for taxes imposed by subtitle C during the preceding calendar year (but not to exceed \$1,000,000), or
- (ii) \$50,000.

Potential for NASBP Members

This will be a new federal obligation for all PEOs that wish to collect and remit federal tax dollars to the IRS on behalf of their customers. From talk with NAPEO, this is a core function of most providers. Between January and June 2016, approximately 700 new bonds will need to be placed for the existing PEOs in business. Among the many benefits for PEOs that receive this certification, there will be much potential for the NASBP:

- PEOs operating without state license bonds will now need a surety relationship
- Existing PEO accounts will need the new federal bond
- Cross marketing opportunities within NAPEO if interested
- Opportunity for a webinar or conference call with NAPEO to learn more

For more information about PEOs and opportunities with NAPEO, please visit www.napeo.org or contact Thom Stohler, Vice President of NAPEO at tstohler@napeo.org or at (703) 739-8167.