

STAND. COM. REP. NO.

100

Honolulu, Hawaii

February 6, 2007

RE: H.B. No. 317
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Sir:

Your Committee on Economic Development & Business Concerns,
to which was referred H.B. No. 317 entitled:

"A BILL FOR AN ACT RELATING TO PROFESSIONAL EMPLOYMENT
ORGANIZATIONS,"

begs leave to report as follows:

The purpose of this bill is to increase business' ability to
efficiently and cost-effectively contract out payroll and payroll-
related functions to a professional employment organization (PEO),
and protect employees by:

- (1) Allocating responsibility between a PEO and their client
company for the labor law rights and tax reporting and
withholding of employees assigned to the client company;
- (2) Exempting a PEO from the general excise tax (GET) on
amounts received from a client company that are
disbursed for wages, salaries, payroll taxes, and
employment benefits for employees assigned to the client
company; and
- (3) Rendering the exemption inapplicable if assigned
employees are excluded from any employee rights or
benefits required by law, or the PEO fails to pay any
assigned employee tax withholding for which the
organization is responsible.

HB317 HD1 HSCR EDB HMS 2007-1755



KilaKila Employer Services provided testimony in support of this bill. The Tax Foundation of Hawaii commented.

Your Committee finds that PEOs handle payroll and payroll related functions for their client companies, which reduces overhead costs for their clients. Double taxation occurs when the PEO is taxed on amounts it receives from its client company that it disburses for the wages, salaries, payroll taxes and benefits of employees assigned to the client company. These moneys are a reimbursement to the PEO, and the client company has already paid the GET on those moneys. This double taxation makes it more costly to do business in Hawaii and discourages growth of the PEO industry.

Your Committee has made technical, nonsubstantive amendments for clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Economic Development & Business Concerns that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 317, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 317, H.D. 1, and be referred to the Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development & Business
Concerns,



KYLE T. YAMASHITA, Chair



