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March 26, 2025

Joint Committee on Labor
Maine State Legislature
100 State House Station
Augusta, ME 04333

RE: Public Testimony on LD 706, An Act Regarding the Laws Relating to Unemployment Insurance

Dear Senator Tipping, Representative Roeder, and members of the Joint Standing Committee on Labor,

On behalf of the National Association of Professional Employer Organizations (NAPEO), I would like to thank you for the opportunity to comment on the legislation under consideration by the Committee on Labor, LD 706.

We believe it is necessary to include amending language stating that the change to unemployment insurance rates for small businesses engaged in a professional employer organization (PEO) relationship will be delayed until the start of the new tax year, January 1, 2026, to protect small businesses from unexpected costs and to account for the programmatic and technological changes necessary for compliance.

NAPEO is the voice of the PEO industry. PEOs provide human resource services to small and mid-size businesses—paying wages and taxes under the PEO's EIN, offering workers' compensation and risk management services, and providing compliance assistance with employment-related rules and regulations. In addition, many PEOs provide HR technology systems and access to 401(k) plans, health, dental, and life insurance, dependent care, and other benefits. In doing so, PEOs help businesses take care of employees by enabling them to offer Fortune 500-level benefits at an affordable cost and providing access to experienced HR professionals. PEOs also help business owners and executives save time by taking administrative and HR related tasks off their plates, allowing them to focus on the success of their businesses. PEOs have been operating in Maine for decades.

Status Quo is Working

In Maine, PEOs, or as defined in statute, "employee leasing companies," are comprehensively regulated by 32 M.R.S. Chapter 125: Employee Leasing Companies. In two sections of Maine code, **26 MRSA §1221-A, sub-§3** and **32 MRSA §14055, sub-§3,** Maine codifies the ability for PEOs to use their unemployment rate while reporting at the client level. With this as the status quo, there have been no issues surrounding the way that PEOs operate in Maine. The ability to use the PEO rate has worked well for clients and worksite employees. Changing the reporting level for unemployment insurance could be costly for small businesses, disrupt the way payroll taxes are reported for PEO clients, and have other unintended consequences.

An Appropriate Implementation Timeline to Minimize Harm

If this body deems that the status quo reporting process should be changed, NAPEO respectfully requests that, at the very least, the timeline for implementation be amended to the start of the next tax year, January 1, 2026, to minimize harm to small businesses and allow time for PEOs to make the necessary programmatic and technological changes.

Small businesses face financial and personnel costs in complying with federal and state tax rules and regulations. PEOs have professional payroll personnel on staff, which benefits many small businesses that contract with PEOs by aiding with wage-related requirements, including the timely remittance of unemployment taxes. By providing this compliance assistance, PEOs relieve their business clients of administrative burdens which, in turn, allows those businesses to focus on growth and adding jobs.

Even with PEO compliance assistance, reporting changes in the middle of a financial year could add a fiscal burden on small businesses whose SUTA rates will change with this proposed legislation. For small businesses that will see a SUTA rate increase, a mid-year adjustment may result in additional unplanned taxes owed to the state. Small businesses plan their finances well in advance, and an unforeseen tax increase could be costly for their bottom lines. We are requesting this delay in implementation to minimize any harm or unnecessary tax increases to small business clients in Maine that partner with a PEO.

Additionally, PEOs will need time to make programming and technological changes to ensure compliance with the proposed change. While every PEO operates uniquely, a change in unemployment insurance structures will have an impact on the administration of other critical services that PEOs offer their small business clients. A 90-day timeline is not feasible to make these changes and failure to extend the implementation timeline could result in a lack of compliance and disruption to the critical services PEOs offer their small business clients.

Thank you for the opportunity to comment on LD 706 to ensure the PEO-client company relationship is considered appropriately and the legislation is implemented as intended without significant unintended consequences to PEOs and the Maine small business clients they partner with. If you should have any additional questions, please feel free to contact me at rfauble@napeo.org.

Sincerely,

Reid Fauble

Director, State Government Affairs

NAPEO