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## BILL ANALYSIS



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Senate Bill 1107 (as introduced 5-1-12)  
Sponsor: Senator Jack Brandenburg  
Committee: Finance

(as enrolled)

Date Completed: 5-8-12

**CONTENT**

**The bill would amend the Michigan Employment Security Act to revise what is called the look-back period in the unemployment tax rate calculation for a client employer of a professional employer organization (PEO), by changing the period from 12 calendar quarters to eight quarters until January 1, 2014. The bill also would require a business entity to retain its existing rate or establish a new rate if it becomes a client employer on or after January 1, 2014, rather than January 1, 2011.**

The Act requires a PEO that is a liable employer to use a specified method for reporting wages and paying unemployment contributions (except as provided for a PEO that was operating in Michigan before January 1, 2011). This method requires the PEO to file a quarterly wage report and unemployment contribution report and pay contributions of its client employers based on the account information of each client employer.

For a PEO's client employer that is a contributing employer and that was a client employer of the PEO on the date that it changed to the required reporting method, the following apply:

- The client employer's unemployment tax rate will be the new employer rate if the client employer reported no employees or no payroll to the Unemployment Insurance Agency (UIA) for 12 or more calendar quarters.
- The client employer's tax rate will be based on the employer's prior account and experience if the employer was a client employer of the PEO for less than 12 full calendar quarters.

The bill would change these look-back periods to eight or more calendar quarters, or less than eight calendar quarters, as applicable, until December 31, 2013. Beginning on January 1, 2014, the rates again would depend on whether a client employer reported no employees or no payroll for 12 or more calendar quarters, or was a client employer of the PEO for less than 12 calendar quarters.

In addition, under the Act, a business entity that is a contributing employer and becomes a client employer of the PEO on or after January 1, 2011, must retain its existing unemployment rate or establish a new rate as provided in Section 19 (which requires the UIA to determine the contribution rate of each contributing employer). Under the bill, this would apply to a business entity that becomes a client employer of the PEO on or after January 1, 2014.

MCL 421.13m

## **BACKGROUND**

Public Act 370 of 2010 created the Michigan Professional Employer Organization Regulatory Act to require the licensure of professional employer organizations and regulate their operations, including their relationship with client employers.

Public Act 383 of 2010 amended the Michigan Employment Security Act to require PEOs to file a report with the Unemployment Insurance Agency for a determination of their status as a liable employing unit and employer; and establish a method for PEOs that are liable employers to report wages to the UIA and pay unemployment contributions (as described above). A PEO that was operating in Michigan on January 1, 2011 (the effective date of Public Act 383) may elect to use this reporting method and must use it beginning on January 1, 2014.

Originally, under Public Act 383, the rate calculations for a client employer depended in part on whether the client employer reported no employees or no payroll for eight or more quarters, or was a client employer for less than eight full quarters.

Public Act 269 of 2011 changed the periods to 12 or more quarters, or less than 12 full quarters, as applicable (in addition to making many other changes to the Employment Security Act).

Legislative Analyst: Suzanne Lowe

## **FISCAL IMPACT**

The bill would change the look-back period in calculating State Unemployment Tax Act (SUTA) taxes. Changing the look-back period would likely have a different effect on the SUTA tax rate for each individual PEO, depending on the unemployment insurance experience accounts of the client employers serviced by each PEO. For this reason, it is difficult to determine the effect of these changes in aggregate, so the fiscal impact of the bill is indeterminate.

Fiscal Analyst: Josh Sefton

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.