



GOV. MSG. NO. 996

EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

June 28, 2007

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fourth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

This is to inform you that on June 28, 2007, the following bill was signed into law:

HB317 HD2 SD2 CD1

A BILL FOR AN ACT RELATING TO PROFESSIONAL
EMPLOYMENT ORGANIZATIONS.
(ACT 225)

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Lingle".

LINDA LINGLE

A BILL FOR AN ACT

RELATING TO PROFESSIONAL EMPLOYMENT ORGANIZATIONS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The purpose of this Act is to eliminate
2 duplicative taxation and thereby allow Hawaii businesses to
3 increase efficiency and cost savings by contracting to have
4 their payroll and payroll-related functions performed by a
5 professional employment organization. Since the contracting
6 company makes general excise tax payments on the funds used for
7 payroll, it is appropriate to exempt the contracted professional
8 employment organization from further taxation on the same
9 payroll moneys. The general excise tax would still apply to the
10 fee paid to the professional employment organization for
11 performing the contracted payroll services. Hawaii's businesses
12 have not been able to take advantage of the rapidly growing
13 mainland trend of using professional employment organizations
14 because the taxes on payroll pass-through moneys can be
15 substantially more than the fee for those services.

16 This tax exemption has precedent in Hawaii law. For
17 example, there is a similar exemption for the funds that hotel



1 management companies receive from the hotel they manage, in
2 reimbursement for performing payroll and related functions.

3 SECTION 2. The Hawaii Revised Statutes is amended by
4 adding a new chapter to be appropriately designated and to read
5 as follows:

6 **"CHAPTER**

7 **PROFESSIONAL EMPLOYMENT ORGANIZATIONS**

8 **§ -1 Definitions.** As used in this chapter, unless the
9 context otherwise requires:

10 "Assigned employee" means an employee under a professional
11 employment organization arrangement whose work is performed in
12 the state. The term does not include an employee hired to
13 support or supplement a client company's work force as temporary
14 help. "Assigned employee" has the same meaning as the term
15 "leased employee" as defined in section 414(n) (with respect to
16 employee leasing) of the Internal Revenue Code of 1986, as
17 amended.

18 "Client company" means a person that contracts with a
19 professional employment organization and is assigned employees
20 by the professional employment organization under that contract.



1 "Professional employment organization" means a business
2 entity that offers to co-employ employees that are assigned to
3 the work sites of its client companies.

4 "Professional employment organization services" means an
5 arrangement by which co-employees of a professional employment
6 organization are assigned to work at the client company and the
7 assigned employee's assignment is intended to be of a long-term
8 or continuing nature, rather than temporary. The term does not
9 include temporary help.

10 "Temporary help" means an arrangement by which an
11 organization hires its own employees and assigns them to a
12 client company to support or supplement the client's work force
13 in a special situation, including:

- 14 (1) An employee absence;
- 15 (2) A temporary skill shortage;
- 16 (3) A seasonal workload; or
- 17 (4) A special assignment or project.

18 **§ -2 Professional employment organization; employee**
19 **rights; payroll cost exemption.** (a) Where any client company
20 uses the services of assigned employees and co-employs assigned
21 employees with a professional employment organization, the
22 client company and the professional employment organization,



1 with respect to the assigned employees, shall not be exempt from
2 the requirements of any federal, state, or county law, including
3 labor or employment laws, collective bargaining rights, anti-
4 discrimination provisions, or other laws with respect to the
5 protection and rights of employees, including chapters 377 and
6 378, that would apply to the assigned employees if the assigned
7 employees were employees of the client company alone, and were
8 not co-employees of the professional employment organization.

9 These employee rights shall not be abrogated by any
10 contract or agreement between the client company and the
11 professional employment organization, or the professional
12 employment organization and the assigned employee, which
13 contains terms or conditions that could not be lawfully
14 contained in a contract or agreement directly between the client
15 company and the assigned employee in which no professional
16 employment organization is involved. Notwithstanding any
17 statute, local ordinance, executive order, rule, or regulation
18 to the contrary, where the laws, rights, and protections
19 referred to in this section define or require a determination of
20 the "employer", the employer shall be deemed to be the client
21 company and not the professional employment organization. The
22 department of labor and industrial relations shall notify the



1 department of taxation in writing of any violation of this
2 subsection.

3 (b) The client company shall be deemed to have satisfied
4 its obligations with respect to any assigned employee under any
5 applicable law, including, without limitation, workers'
6 compensation laws including chapter 386, employee insurance
7 coverage laws including chapters 383, 385, 392, and 393, and tax
8 withholding and reporting laws, if and to the extent that those
9 obligations are satisfied by the professional employment
10 organization acting in its capacity as co-employer of such
11 assigned employee.

12 (c) Amounts received by a professional employment
13 organization from a client company in amounts equal to and that
14 are disbursed by the professional employment organization for
15 employee wages, salaries, payroll taxes, insurance premiums, and
16 benefits, including retirement, vacation, sick leave, health
17 benefits, and similar employment benefits with respect to
18 assigned employees at a client company shall not be subject to
19 the general excise tax as provided by section 237-24.75.

20 (d) The general excise tax exemption under section
21 237-24.75 shall not apply to the professional employment
22 organization if:



1 (1) By or through any contract between the client company
2 and any professional employment organization, or
3 otherwise, employees are excluded from any employee
4 rights or employee benefits required by law to be
5 provided to employees of the client company by the
6 client company; or

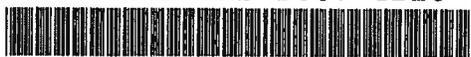
7 (2) The professional employment organization fails to pay
8 any tax withholding for assigned employees or any
9 federal or state taxes for which the professional
10 employment organization is responsible."

11 SECTION 3. Section 237-24.75, Hawaii Revised Statutes, is
12 amended to read as follows:

13 "[~~f~~]**§237-24.75**[~~f~~] **Additional exemptions.** In addition to
14 the amounts exempt under section 237-24, this chapter shall not
15 apply to amounts received [~~as~~]:

16 (1) As a beverage container deposit collected under
17 chapter 342G, part VIII[-]; and

18 (2) By a professional employment organization from a
19 client company equal to amounts that are disbursed by
20 the professional employment organization for employee
21 wages, salaries, payroll taxes, insurance premiums,
22 and benefits, including retirement, vacation, sick



1 leave, health benefits, and similar employment
2 benefits with respect to assigned employees at a
3 client company; provided that this exemption shall not
4 apply to a professional employment organization upon
5 failure of the professional employment organization to
6 collect, account for, and pay over any income tax
7 withholding for assigned employees or any federal or
8 state taxes for which the professional employment
9 organization is responsible. As used in this
10 paragraph, "professional employment organization",
11 "client company", and "assigned employee" shall have
12 the meanings provided in section -1."

13 SECTION 4. Statutory material to be repealed is bracketed
14 and stricken. New statutory material is underscored.

15 SECTION 5. This Act shall take effect on July 1, 2007;
16 provided that section 3 shall apply to gross income or gross
17 proceeds received after June 30, 2007.

APPROVED this 28 day of JUN , 2007



GOVERNOR OF THE STATE OF HAWAII

