
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair
2025 - 2026 Regular Session

AB 1515 (Committee on Labor and Employment) - Professional employer organizations

Version: June 23, 2025

Urgency: No

Hearing Date: August 18, 2025

Policy Vote: L., P.E. & R. 4 - 1

Mandate: No

Consultant: Robert Ingenito

Bill Summary: AB 1515 would regulate the professional employer organization (PEO) industry by defining key terms and prohibiting a person from providing, advertising, or otherwise holding oneself out as providing professional employer services in the State unless the person registers with the Division of Labor Standards Enforcement (DLSE).

Fiscal Impact: Administrative costs to the Department of Industrial Relations (DIR), including but not limited to developing and maintaining a registration system, have yet to be determined, but could exceed \$150,000 annually (special fund).

Background: Under the PEO model, which originated roughly 50 years ago, employers would terminate their workforce, a leasing company would employ that workforce, and then the leasing company would provide that same workforce back to the client as leased employees. This arrangement enabled employers to cut costs. Today, the modern PEO industry provides human resources, payroll, and employment tax services to small and mid-size businesses. The PEO model generally relieves clients of administrative responsibilities so that they can focus on their core business. PEOs can issue payroll, remit employment tax payments, administer employee benefits and workers' compensation, and recruit, hire, and onboard workers. When PEOs pay wages and taxes, they use their own employer identification number, not the client's. The National Association of Professional Employer Organizations (NAPEO) estimates that more than 200,000 business across the country use a PEO.

A PEO and its client structure their relationship through a client services agreement that specifies how the two will delineate employer responsibilities and liabilities. The NAPEO refers to the relationship between a PEO and its client as "co-employment." The U.S. Code, however, does not define the term, nor does federal tax law recognize the concept. Instead, Treasury Regulation 31.3504-2 authorizes a person that pays wages or compensation to the individuals performing services for any client pursuant to a service agreement to perform the acts required of an employer with respect to the wages or compensation paid. In a "co-employment" agreement, the client company maintains responsibility for and manages product development and production, business operations, marketing, sales, and service, while the PEO provides services related to employment.

In other states, PEO regulations and licensing requirements vary. In California, PEOs are not statutorily defined or regulated.

Proposed Law: This bill would do the following:

- Define “professional employer organization (PEO)” as a person that meets any of the following criteria: (1) is certified by the Secretary of the Treasury pursuant to Section 7705 of Title 26 of the United States Code, (2) is accredited by the Employer Assurance Corporation, or (3) provides professional employer services to a client pursuant to a written professional employer agreement intended by the parties to create an ongoing relationship.
- Define “professional employer services” as services pursuant to a professional services agreement that provides for all or substantially all employees of a client and includes all of the following: (1) reporting employee wages using the federal employer identification number of the PEO, (2) securing workers’ compensation insurance, as specified, and (3) offering employee benefit plans.
- Prohibit a person from providing, advertising, or otherwise holding oneself out as providing professional employer services in the state unless the person registers with DLSE.
- Require a PEO, upon registration, to pay an initial registration fee established by DLSE not to exceed the reasonable cost of providing the registration.

Related Legislation:

- AB 975 (Ma, 2011) would have prohibited a person or entity from providing professional employer services, advertising for professional employer services, or otherwise holding itself out as providing professional employer services in the state unless that person or entity registers as a PEO with EDD, as specified. The bill would have directed EDD to prescribe rules establishing the method for PEOs to report quarterly wages and contributions for worksite employees. The bill was held under submission on the Suspense File of this Committee.
- AB 2570 (Ma, 2010) would have regulated PEOs by recognizing, for the purposes of the remittance of payroll taxes, a ‘co-employment’ contractual relationship between a Professional Employer Organization and a business employer. The bill was held under submission on the Suspense File of this Committee.

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