
THIRD READING

Bill No: AB 1515
Author: Committee on Labor and Employment
Amended: 6/23/25 in Senate
Vote: 21

SENATE LABOR, PUB. EMP. & RET. COMMITTEE: 4-1, 7/9/25
AYES: Smallwood-Cuevas, Cortese, Durazo, Laird
NOES: Strickland

SENATE APPROPRIATIONS COMMITTEE: 5-2, 8/29/25
AYES: Caballero, Cabaldon, Grayson, Richardson, Wahab
NOES: Seyarto, Dahle

ASSEMBLY FLOOR: 69-0, 5/15/25 (Consent) - See last page for vote

SUBJECT: Professional employer organizations

SOURCE: Author

DIGEST: This bill attempts to 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.

ANALYSIS:

Existing federal law:

- 1) Defines a certified professional employer organization as a person who applies to be treated as a certified professional employer organization and has been certified by the Treasury Secretary as meeting specified requirements. (26 United States Code (U.S.C) §7705(a))

- 2) Provides that a certified professional employer organization shall be treated as the employer (and no other person shall be treated as the employer) of any work site employee performing services for any customer of such organization, but only with respect to remuneration remitted by such organization to such work site employee. (26 U.S.C §3511(a))

Existing state law:

- 1) Establishes within the Department of Industrial Relations the Division of Labor Standards Enforcement (DLSE) under the direction of the Labor Commissioner (LC), and empowers the LC to ensure a just day's pay in every work place and to promote justice through robust enforcement of labor laws. (Labor Code §79-107)
- 2) Defines a "temporary services employer," also known as a "leasing employer," as an employing unit that contracts with clients or customers to supply workers to perform services for the clients or customers, as well as to perform the following functions:
 - a) Negotiate with clients or customers for such matters as time, place, type of work, working conditions, quality, and price of the services;
 - b) Determine assignments or reassignments of workers, even though workers retain the right to refuse specific assignments;
 - c) Retain the authority to assign or reassign a worker to other clients or customers when a worker is determined unacceptable by a specific client or customer;
 - d) Assign or reassign the worker to perform services for a client or customer;
 - e) Set the rate of pay of the worker, whether or not through negotiation;
 - f) Pay the worker from their own account or accounts;
 - g) Retain the right to hire and terminate workers.(Labor Code §201.3 and Unemployment Insurance Code §606.5)
- 3) Provides that if an individual or entity contracts to supply an employee to perform services for a customer or client, and *is* a temporary services employer or a leasing employer, the individual or entity is the employer of the employee who performs the services. (Unemployment Insurance Code §606.5(c))
- 4) Provides that if an individual or entity contracts to supply an employee to perform services for a client or customer and *is not* a temporary services employer or a leasing employer, the client or customer is the employer of the employee who performs the services. (Unemployment Insurance Code §606.5(c))

- 5) Provides that an individual or entity that contracts to supply an employee to perform services for a customer or client and pays wages to the employee for the services, *but is not* a leasing employer or a temporary services employer, pays the wages as the agent of the employer. (Unemployment Insurance Code §606.5(c))
- 6) Provides that whether an individual or entity is the employer of specific employees shall be determined by the ABC Test (AB 5, Chapter 296, Statutes of 2019), except as provided in 2)- 6), above. (Unemployment Insurance Code §606.5(a))

This bill:

- 1) Defines “professional employer organization (PEO)” as a person that meets any of the following criteria:
 - a) Is certified by the Secretary of the Treasury pursuant to Section 7705 of Title 26 of the United States Code.
 - b) Is accredited by the Employer Assurance Corporation
 - c) Provides professional employer services to a client pursuant to a written professional employer agreement intended by the parties to create an ongoing relationship.
- 2) Defines “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:
 - a) Reporting employee wages using the federal employer identification number of the PEO.
 - b) Securing workers’ compensation insurance, as specified.
 - c) Offering employee benefit plans.
- 3) Prohibits a person from providing, advertising, or otherwise holding oneself out as providing professional employer services in the state unless the person registers with DLSE.
- 4) Requires a PEO, upon registration, to pay an initial registration fee established by DLSE not to exceed the reasonable cost of providing the registration.

Background

Professional Employer Organizations (PEOs). The PEO industry originated in the 1970s with the rise of leasing employers. Under this model, 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 enabled employers to cut costs. As the popularity of this model increased, businesses began to see other benefits to leasing employees. Today, the modern PEO industry provides human resources, payroll, and employment tax services to small and mid-size businesses. Ideally, the PEO model 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.¹

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.

Across the country, PEO regulations and licensing requirements vary. In California, PEOs are not statutorily defined or regulated.

Comments

In 2011, AB 975 (Ma) sought to regulate the PEO industry with similar language to AB 1515. Instead of registering with DLSE, AB 975 would have required PEOs to register with the Employment Development Department (EDD). This previous attempt stalled in the Senate Appropriations Committee.

AB 1515 would attempt to regulate the 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

¹ NAPEO, Frequently Asked Questions About PEOs, <https://napeo.org/intro-to-peos/faqs/>

with DLSE. This bill in print contains few details on the proposed registration requirement and offers no enforcement mechanism. The author's office is committed to working with industry stakeholders to refine this bill's provisions.

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 Senate Appropriations Committee held this bill on suspense.*

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 Senate Appropriations Committee held this bill on suspense.*

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

"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)."

SUPPORT: (Verified 8/29/25)

National Association of Professional Employer Organizations

OPPOSITION: (Verified 8/29/25)

None received

ARGUMENTS IN SUPPORT:

According to the National Association of Professional Employer Organizations:

"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.

Across the U.S., PEOs provide services to 200,000 small and mid-sized businesses, employing 4.5 million people. More than 21,000 California businesses – employing more than 470,000 people partner with a PEO.

Since 1991, 38 states have adopted comprehensive legislation to bring regulatory certainty to the industry, to clearly define PEOs and differentiate them from other business models, and to raise industry standards to the benefit of PEOs, their clients, employees of their clients, and state regulators.

The goal of AB 1515 is to enact similar statutory recognition and regulation of the PEO industry in California. We have been working collaboratively this year with the California Federation of Labor Unions, AFL-CIO and other interested stakeholders and those discussions are ongoing. AB 1515 is an Assembly Labor Committee bill intended to facilitate these discussions and serve as a placeholder for final legislative language as these productive discussions continue.”

ASSEMBLY FLOOR: 69-0, 5/15/25

AYES: Addis, Aguiar-Curry, Ahrens, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Berman, Boerner, Bonta, Bryan, Calderon, Carrillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Mark González, Hadwick, Haney, Harabedian, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Alanis, Arambula, Bennett, Caloza, Castillo, Jeff Gonzalez, Hart, Quirk-Silva, Ramos, Stefani

Prepared by: Emma Bruce / L., P.E. & R. / (916) 651-1556
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**** END ****

