

CALIFORNIA STATE BOARD OF EQUALIZATION
APPEALS DIVISION BOARD HEARING SUMMARY

3 In the Matter of the Claim for Refund)	
4 Under the Hazardous Substances Tax Law of:)	
5 SINGLEPOINT OUTSOURCING, INC.)	Account Number EF STF 42-117383
6 Claimant)	Case ID 522966
)	Visalia, Tulare County

7 Type of Business: Employee leasing

8 Claim period: 01/01/06 – 12/31/07

<u>Item</u>	<u>Claimed Refund</u>
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10 Environmental fee	\$2,808
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11 This matter was scheduled for Board hearing in October 2013, but was postponed at claimant's
12 request to allow additional time to prepare.

UNRESOLVED ISSUES

14 **Issue:** Whether claimant is liable for the environmental fee for 2006 and 2007. We conclude
15 claimant is liable.

16 Claimant is a professional employer organization (PEO) that contracts with client companies to
17 provide various administrative and human resource services to those businesses and to provide certain
18 benefits to the employees. The employees are referred to as "co-employees" since both claimant and
19 the client company retain some type of control over the employee. Specifically, claimant, as a PEO,
20 handles the payroll, benefit, and human resource functions for each co-employee. Although the client
21 company supplies the funds for payroll and payroll taxes, claimant is responsible for the payment of
22 wages, taxes, and benefits even if the client company does not supply the necessary funds. Claimant
23 also provides the co-employees with health insurance, workers compensation insurance, and retirement
24 programs. Claimant reports the co-employees to the Employment Development Department (EDD)
25 when it files quarterly payroll reports.

26 Claimant reported and paid environmental fees in the amount of \$2,808 for the years 2006 and
27 2007 and has filed a claim for refund for the entire amount, contending that it was not responsible for
28 reporting and paying the fee. The Environmental Fees Division of the Property and Special Taxes

1 Department¹ determined that claimant was responsible for reporting and paying the environmental fee
2 and has recommended that the claim for refund be denied.

3 Claimant contends that it should not be responsible for the environmental fee because the
4 employees in question should be attributed to the client businesses that actually receive the benefit of
5 the employees' services. Claimant does not dispute that it is a PEO, that it is an employer, or that it
6 reports the employees to EDD. Claimant argues that it is a co-employer of the employees, and, relying
7 on California Code of Regulations, title, 22, section (Regulation) 66269.1, subdivision (a)(1), asserts
8 that the client business should be the enterprise that reports and pays the environmental fee because it
9 receives the employees' services.

10 In addition, claimant contends that public policy suggests the client company should bear the
11 burden of the environmental fee, asserting that there is no connection between its hazardous waste
12 footprint and that of the co-employees because the co-employees use and consume hazardous materials
13 and generate hazardous waste in fulfilling their duties for the client company. Claimant argues that the
14 legislature intended that the environmental fee be imposed only on large companies, which claimant is
15 not. Claimant also describes various issues that it finds inequitable, related to the fee structure and
16 related to the possibility that the PEO would pass along the cost to its client companies.

17 There is no dispute as to the basic facts (i.e., that claimant is a PEO, that claimant reports the
18 employees to EDD, that claimant is a co-employer of the employees, and the basic structure of the
19 PEO-client company working relationship). Because claimant is the employer that reports the
20 employees to EDD (see Cal. Unemp. Ins. Code § 13020), claimant is responsible for the environmental
21 fee, pursuant to Regulation 66269.1, unless claimant can show that it meets the exception of common
22 ownership or management.

23 Claimant's contention that it meets the exception of common management because the client
24 company and claimant have co-employees misconstrues the concept of common management.
25 Regulation 66269.1 is clear that the exception applies to two or more businesses that are united by

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27 ¹ Since the Property and Special Taxes Department was reorganized in December 2012, the Appeals and Determinations
28 Group has been responsible for processing claims for refund. However, at the time this claim for refund was filed, the
Environmental Fees Division was responsible.

1 common ownership or management, that is, when the *businesses* are owned or managed by the same
2 people. Claimant has not argued that this is the case here, and it clearly is not. There is no provision
3 that allows for a shifting of the responsibility for the environmental fee when two businesses are
4 co-employers. Consequently, we find claimant does not qualify for the exception and is responsible
5 for the environmental fee as the employer that reports the employees to EDD. Accordingly, we
6 recommend that the claim for refund be denied.

7 Claimant's public policy contentions are immaterial to the foregoing analysis. We can only
8 apply the law that has been enacted to the specific facts presented in this appeal. Claimant's public
9 policy concerns are more properly addressed to the legislature.

10 **OTHER MATTERS**

11 None.

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13 Summary prepared by Deborah A. Cumins, Business Taxes Specialist III
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