

June 11, 2007

Texas Legislature Passes Staffing Industry Tax Relief

Last year, the Texas legislature passed a law that revised the state franchise tax law by imposing a new gross margin formula. Under the new formula, businesses could deduct either compensation or cost of goods sold when determining their tax liability.

Staffing companies' primary concern with the new law was that the definition of the compensation that could be deducted for the purpose of determining tax liability was not broad enough to include major costs such as payroll taxes and workers' compensation insurance. The ASA-affiliated chapter Texas Association of Staffing and its lobbyists launched an effort to expand the definition of compensation in a technical corrections amendment aimed at fixing problems with the new law.

The approach used was to piggyback on existing tax provisions applicable to staff leasing companies, which already enjoyed the tax treatment TAS was seeking. After extensive efforts, TAS was successful in persuading the legislature to adopt an amendment that ensures that "temporary employment services" receive the same tax treatment as staff leasing companies by allowing temporary employment services to exclude as compensation all wages, payroll taxes, employee benefits, and worker's compensation of their temporary employees from their total revenue in determining their tax liability.

The amendment also allows clients of temporary employment services firms to deduct the wages and benefits of the temporary employees assigned to them when calculating the clients' tax liability. In making such deductions, clients may rely on the firm's invoice or on information provided by the firm on a form issued by the state comptroller.

The technical corrections bill was passed overwhelmingly by the legislature and has been sent to Gov. Rick Perry for his signature. He has until June 13 to sign or veto the bill. Analysts are not sure which action the governor will take. It is estimated that the new provisions, which will affect tax returns filed in May 2008, is worth \$20 million for Texas staffing firms and their clients.

Many thanks go to TAS executive director Kate Hill, lobbyist Billy Hamilton, and all of the dedicated TAS members who, after three years of cajoling, phone calls, and personal visits to their state legislators, scored a major victory for the industry in Texas.