

City of Scranton

Payroll Preparation Tax

FAQ's

(Revised 11/17/22)

1. What is the Payroll Preparation Tax?

The Payroll Preparation Tax is a tax on an employer's total payroll expense paid, including salaries, wages, net distributions, commissions, bonuses, stock options, and all other compensation to all individuals who, during any tax year, conduct business activity in the City of Scranton. The tax is levied on employers and under no circumstances may the Payroll Preparation Tax be deducted from the employee's wages.

2. How do I know if my entity must pay the Payroll Preparation Tax?

If you hire, engage, employ, or contract one or more individuals, as employees (including sole proprietors, partners, and corporate officers/members) to perform work or render services within the City of Scranton, then you are expected to file and pay the Payroll Preparation Tax.

3. What does "conducting business" within the City of Scranton mean?

A person shall be deemed to be conducting business within the City if one engages, hires, employs, or contracts with one or more individuals as employees, partners, or is self-employed and, in addition, does at least *one* of the following:

- (1) Maintains a fixed place of business within the City;
- (2) Owns or leases real property within the City for purposes of such business;
- (3) Maintains a stock of tangible, personal property in the City for sale in the ordinary course of business;
- (4) Conducts continuous solicitation within the City related to such business; or
- (5) Utilizes the streets of the City in connection with the operation of such business, other than for the mere transportation from a site outside the City, through the City, to a destination outside of the City.

4. What is the Payroll Preparation Tax rate?

The City of Scranton's Payroll Preparation Tax is levied at a rate of 0.2787% or 0.002787 and is computed on a business's total payroll expense attributable to the total number of days an employee, partner, member, shareholder, or other individual conducted business within the City.

5. What is a tax year?

A tax year is the twelve-month period that begins on January 1 and ends on December 31.

6. When is the Payroll Preparation Tax due?

The Payroll Preparation Tax shall be paid quarterly. The first three quarterly payments are due in the current tax year and the fourth quarterly payment is due in the subsequent tax year. For example, the 2024 tax year Payroll Preparation Tax payment shall be paid on or before:

QUARTER	DUE DATE
FIRST	MAY 31, 2024
SECOND	AUG 31, 2024
THIRD	NOV 30, 2024
FOURTH	FEB 28, 2025

7. Who is exempt from the Payroll Preparation Tax?

Governmental Entities are exempt from paying the Payroll Preparation Tax.

Institutions of Purely Public Charity are exempt from paying the Payroll Preparation Tax with respect to activities that are related to the charitable purposes for which the Institution was formed. Institutions of Purely Public Charity *must file quarterly returns* indicating the gross compensation earned for all respective employees in that quarter. The tax due line will be completed as "0."

Institutions of Public Charity may be required to pay the Payroll Preparation Tax on that portion of its payroll expense attributable to business activity for which a tax may be imposed pursuant to section 511 of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. §1 et. seq.). Refer to section 511 of the Internal Revenue Code for more information.

8. Where can I obtain a Payroll Preparation Tax return?

The City of Scranton has appointed Berkheimer Tax Innovations as the administrator of the Payroll Preparation Tax. A Payroll Preparation Tax return can be found on Berkheimer’s website at <https://www.hab-inc.com/pptforms/> or by calling Berkheimer at (610)-599-3140.

9. Where should I submit my Payroll Preparation Tax return?

You shall remit your Payroll Preparation Tax return, along with your check or money order made payable to HAB-PPT, to the following address:

HAB-PPT
PO Box 21810
Lehigh Valley, PA 18002-1810

10. Who should I contact if I have any questions regarding my Payroll Preparation Tax return?

You may contact Berkheimer Tax Innovations at ebpt@goberk.com or (610)-599-3140.

11. Is the income from my rental property subject to the Payroll Preparation Tax?

Rental income reported on an IRS Schedule C is taxable for Payroll Preparation Tax purposes. However, rental income reported on an IRS Schedule E is passive income which is not taxable for Payroll Preparation Tax purposes. A person filing an IRS Schedule E shall submit a copy of their Schedule E to Berkheimer Tax Innovations along with their tax return claiming an exemption from the Payroll Preparation Tax.

12. An individual owns five rental properties located in the City of Scranton but has no employees. Would the individual be subject to the Payroll Preparation Tax?

If the property owner files an IRS Schedule E for the 5 properties and has no employees, then the property owner would not be subject to the Payroll Preparation Tax.

If the property owner files an IRS Schedule C for the 5 properties, then the property owner would be subject to the Payroll Preparation Tax, even if the property owner had no employees.

13. I was informed by Berkheimer Tax Innovations that my business was identified as being located in the City of Scranton and may be subject to the Payroll Preparation Tax. My business is no longer located in the City of Scranton. Do I need to file a Payroll Preparation Tax return?

If you received a notification that you may be subject to the Payroll Preparation Tax but your business is no longer located in the City of Scranton, please remit your return with no payment and a completed Payment Under Protest application stating the business is no longer located in the City of Scranton. A Payment Under Protest application can be found on Berkheimer's website at <https://www.hab-inc.com/pptforms/> or by calling Berkheimer at (610)-599-3140.

14. I received a notice from Berkheimer Tax Innovations informing me that my business may be subject to the Payroll Preparation Tax. The business I had in the City of Scranton is closed. Do I need to file a Payroll Preparation Tax return?

If you received a notification that you may be subject to the Payroll Preparation Tax, but your business is closed, please remit your return with no payment and a

completed Payment Under Protest application stating that the business is closed. A Payment Under Protest application can be found on Berkheimer's website at <https://www.hab-inc.com/pptforms/> or by calling Berkheimer at (610)-599-3140.

15. I was not informed that my business was liable for the Payroll Preparation Tax and I filed my tax late. Am I exempt from late fees?

No. It is ultimately the responsibility of the taxpayer (or their legal representative) to be informed of all municipal tax laws including the due dates of the required Payroll Preparation Tax returns.

16. Do I have to pay the Payroll Preparation Tax even if my office is not located in the City?

If you conduct any business within the City of Scranton's municipal boundary you are required to file a Payroll Preparation Tax return form, even if your business is not located in the City.

17. If a general contractor has an office located outside of the City of Scranton and works within the City of Scranton for one (1) day, are they subject to the Payroll Preparation Tax?

Yes. An employer who conducts business within the City of Scranton on a temporary, seasonal, or itinerant basis shall calculate the tax on the total compensation earned while working within the City of Scranton during the applicable quarter.

18. A non-resident general contractor is located in New Jersey. The contractor renovates an office building in Downtown Scranton. Is the contractor subject to the Payroll Preparation Tax?

Yes. The company is conducting business within the City of Scranton. You will determine the total payroll expense attributable to work done within the City of Scranton during the applicable quarter and that amount will be taxable.

19. Corporation A has two offices, one in and one outside the City of Scranton. How do you calculate the Payroll Preparation Tax?

You will calculate the total gross payroll of the employees who work within the City of Scranton during the applicable quarter and multiply it by 0.2787% or 0.002787. If the employees who work in the office located outside the City of Scranton conduct no work within the City of Scranton, their gross compensation is not to be included in the gross taxable compensation.

20. Are regulated businesses located within the City of Scranton such as banks, beer distributors, taverns, stockbrokers, insurance companies, or manufacturers subject to the Payroll Preparation Tax?

Yes. Pursuant to City of Scranton ordinance File of Council No. 95 of 2021 and Act 222 of 2004 of the Pennsylvania General Assembly, only Government Entities are excluded from the requirements of filing a Payroll Preparation Tax return.

21. If a general contractor hires subcontractors to perform work within the City of Scranton, is the general contractor required to file and pay the Payroll Preparation Tax for these subcontractors?

No. The general contractor is only required to pay the tax on their own employees. The subcontractor is required to register their business entity with the City of Scranton and remit all required Payroll Preparation Tax returns.

22. If it is just my partner and me operating a business within the City of Scranton, do we still have to file and pay the Payroll Preparation Tax?

Yes. The amount of a partner's or self-employed person's draws from net income from one or more businesses that have activities in the City shall be reported for the Payroll Preparation Tax. For purposes of this regulation, taxable distributions are limited by the sum of draws or net income for that partner or self-employed person, whichever is less.

23. What if I am the only person who does all the work for the business, am I still required to file and pay for Payroll Preparation Tax?

Yes. Any person conducting business within the City of Scranton must file a quarterly return and pay the Payroll Preparation Tax unless your business is an exempt entity.

24. Our company currently does not have any active payroll or distribute any compensation, are we still expected to pay the Payroll Preparation Tax?

The Payroll Preparation Tax is levied on gross compensation, not gross receipts. If your entity has any active payroll or compensation paid to any person for activity conducted within the City of Scranton, you are required to file the quarterly return and pay the tax. If the entity is active, yet there is no current payroll or net distributions/draws, then you must still file the quarterly return indicating "zero" for reportable compensation and tax due.

25. A non-profit hospital (Purely Public Charity) has a gift shop. In this gift shop, shirts and other sports items are sold. The hospital pays federal taxes under section 511 of the Internal Revenue Code by filing form 990T. Is this hospital subject to the Payroll Preparation Tax?

Yes, if the hospital is the owner of the gift shop. The payroll expense to operate the giftshop would be taxable. If the charity has purchased or is operating branches, affiliates, subsidiaries, or other business entities that do not independently meet the standards of the “Institutions of Purely Public Charity Act”, then the tax shall be paid on the payroll attributable to such for-profit branches, affiliates, subsidiaries or other business entities, whether or not the employees are leased or placed under the auspices of the charity’s umbrella or parent organization.

If the gift shop is owned and operated by an independent entity, that entity would be liable for the Payroll Preparation Tax on any and all gross compensation paid to owners or employees.

26. A cardiac surgery business has its office outside the City of Scranton, but the work is performed in City of Scranton hospitals. Is the business subject to the Payroll Preparation Tax?

Yes. The business is subject to the Payroll Preparation Tax for the time that work is performed within the City of Scranton hospitals and/or other city locations. The payroll amount attributable to the City of Scranton shall be determined by applying an apportionment factor (percentage) to the total gross compensation earned by an employee, partner, member, shareholder, or other individual who works within the City of Scranton.

27. A construction company is located in the City of Scranton and performs work within the City’s municipal boundaries as well as outside of the City. How is the Payroll Preparation Tax calculated?

The construction company will determine the total payroll expense attributable to work done within the City of Scranton and that amount would be taxable. The payroll expense attributable to work performed outside the City of Scranton would not be taxable to the City of Scranton. See example below:

PAYROLL EXPENSE (for Oct-Nov- Dec)	PAYROLL EXPENSE
General Office Staff	\$90,000.00 – taxable
Construction workers expense for work in Scranton	\$1,000,000.00 – taxable
Construction workers expense for work out of Scranton	<u>\$500,000.00 – not taxable</u>
Total Taxable Payroll Expense	\$1,090,000.00

Total Taxable Payroll Expense	\$1,090,000.00
Multiply Total Payroll Expense by Tax Rate	x <u>0.002787</u>
Total Tax Due (Due on 2-28)	\$3,037.83

28. A business started operating on May 15 in the City of Scranton. When is the first return due?

The first return is due August 31 based on the current quarter's payroll from May 15 thru June 30.

29. A corporation goes out of business within the City of Scranton on November 1. How do you calculate the Payroll Preparation Tax for the fourth quarter?

The business will be expected to file and pay the fourth quarter Payroll Preparation Tax obligation for the month of October on or before February 28 of the subsequent calendar year.