





EY Payroll NewsFlash

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City of Scranton, Pennsylvania's payroll preparation tax return for second quarter is due August 31, 2022

SUMMARY

- Effective January 1, 2022, the City of Scranton replaced its business privilege and mercantile tax with a new payroll preparation tax of 0.2787% of payroll expenses.
- The due date for the first return was June 30, 2022 (an extension from May 31) and the return for second quarter is due August 31, 2022
- Businesses with employees in the City of Scranton will need to be certain to register and file/pay the taxes due.

The City of Scranton, Pennsylvania's payroll preparation tax return for the second quarter is due August 31, 2022.

Background

On December 14, 2021, the City of Scranton enacted [Resolution No. 79](#) that effective January 1, 2022, replaces the city's business privilege and mercantile tax with a new payroll preparation tax of 0.2787% of payroll expense paid by an employer, including salaries, wages, net distributions, commissions, bonuses, stock options and all other compensation, to individuals who conducted business in the city during the tax year. The tax is paid by employers and cannot be deducted from employees' wages. ([Payroll Preparation Tax Information](#); [Payroll Expenses Tax Frequently Asked Questions](#).)

The City of Scranton's payroll preparation tax is administered by Berkheimer Tax Innovations and the tax forms can be found [here](#).

Registration

Every person having an office, factory, workshop, branch, warehouse, or other place of business, including banks, schools, hospitals, non-profits, and trade associations, located in the city or outside the city, who, during any tax year, performs work or renders services in whole or in part in the city and has not previously registered with the city's Treasurer, is required to register with the Treasurer within 15 days. The person should provide its name, address and any other information as the city may require.

Tax payments and returns

Starting in 2022, the payroll preparation tax is paid with the quarterly return on or before the following due dates:

First quarter: Due May 31 (for 2022, extended to June 30, 2022)

Second quarter: Due August 31

Third quarter: Due November 30

Fourth quarter: Due February 28 of the following year

Payroll expense and profits

Payroll expense is all compensation earned by an employee or a self-employed individual. Compensation is defined as salaries, wages, commissions, bonuses, net earnings and incentive payments, whether based on profit or otherwise, as well as fees, tips and any other form of remuneration earned for services rendered, whether paid directly or through an agent, and whether in cash or in property or the right to receive property.

Profits are a share of net income earned for services rendered from a partnership, a limited liability company, a business trust or S corporation, after provision for all costs and expenses incurred in the conduct thereof, determined either on a cash or accrual basis in accordance with accepted accounting principles and practices, and including, but not limited to, any amount treated as net earnings from self-employment for services rendered.

See the [Local Tax Enabling Act, 53 P.S. Section 6924.501](#) (Earned Income) for the definition of the gross payroll of the employer.

Covered persons and entities

- **Business.** The tax applies to any activity, enterprise, profession, trade or undertaking of any nature conducted or engaged in, or ordinarily conducted or engaged in, for the purpose of gain or benefit to or advantage of, whether direct or indirect, the taxpayer or another or others.

A business includes subsidiary or independent entities that conduct operations for the benefit of others and at no profit to themselves, nonprofit businesses and trade associations.

A person is conducting business within the City of Scranton if they engage, hire, employ or contract with one or more individuals as employees or is self-employed and, in addition, does at least one of the following:

- Maintains a fixed place of business within the city
- Owns or leases real property within the city for purposes of such business

- Maintains a stock of tangible, personal property in the city for sale in the ordinary course of business
- Conducts continuous solicitation within the city related to such business
- 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, or to a destination outside of the city

A person also is engaged in business if in return for rental income, the person rents, leases or hires real or personal property to others; however, a person is not engaged in business solely by reason of the receipt of income from passive investments for which no services were rendered.

- **Employer.** An employer is any person or entity conducting business activity within the city, except for a governmental entity.
- **Employee.** An employee is any individual in the service of an employer, under an appointment or contract of hire or apprenticeship, express or implied, oral or written, whether lawfully or unlawfully employed.

In addition, and irrespective of the common law tests for determining the existence of an independent contractor relationship, an individual performing work or service for compensation is an employee of the person for whom the work or service is performed unless one of the following applies:

- The individual has been and will continue to be free from control or direction over the performance of such work or service, both under his/her appointment or contract of hire or apprenticeship.
- The work or service is outside the usual course of the business of the person for which such service is performed.
- The individual is customarily engaged in an independently established trade, occupation, business or profession.

Calculating the tax

The tax is computed at the rate of 0.2787% on the amount of payroll expense generated from business activity the employer conducts within the city.

The payroll amount attributable to the city is equal to the total payroll expense times the total days employee, partner etc. works within the city divided by the total number of days employee/person works overall.

Temporary, seasonal or itinerant businesses, that is, an employer with presence in the city for a duration of 120 days or less, calculate the tax on the total compensation earned while in the city.

A charitable organization calculates the tax that would otherwise be attributable to the city but pays tax only on that portion of its payroll expense attributable to business activity for which a tax may be imposed under IRC Section 511. 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," the tax is paid on the payroll attributable to such for-profit branches, affiliates or subsidiaries, whether or not the employees are leased or placed under the auspices of the charity's umbrella or parent organization.

Contact us for more information

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