



Payroll Expense Tax- FAQs

1. What is the Payroll Expense Tax and what is its purpose?

Payroll Expense Tax is the total compensation paid, including salaries, wages, net distributions, commissions, bonuses, stock options and other compensation to all individuals who during any tax year, perform work or render services in whole or in part in the City of Pittsburgh. The tax is levied on Employers and under no circumstances may the payroll tax be deducted from the Employee's wages.

2. A business started operating on May 15 in the City of Pittsburgh. When is the first return due? How do you calculate the Payroll Expense Tax?

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

3. How do I know if my entity is eligible for the Payroll Expense 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 Pittsburgh, then you are expected to file and pay the Payroll Expense Tax.

4. Who is exempt from the Payroll Expense Tax?

Governmental Entities are exempt from filing the Payroll Expense Tax. Institutions of Purely Public Charity are exempt from paying the Payroll Tax associated with activities that are related to the charitable purposes for which the Institution was formed. Refer to Section 511 of the Internal Revenue Code for more information.

A quarterly return must be filed indicating the gross compensation earned for all respective employees in that quarter. The tax due line will be completed as "0."

5. I was not informed that my business was liable for the Payroll Expense 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 tax returns.

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

If you conduct any business within the City limits, you are required to file and pay payroll expense tax.

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

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

8. A non-resident general contractor is located in Ohio. The contractor renovates an office building in Downtown Pittsburgh. Is the contractor subject to the Payroll Expense Tax?

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

9. Corporation A has two offices, one in and one outside the City of Pittsburgh. How do you calculate the Payroll Expense Tax?

You will calculate the total gross payroll of the employees who work within the City of Pittsburgh and multiply it by 0.0055. If the employees who work in the office located outside the City of Pittsburgh do no work within the City of Pittsburgh, their gross compensation is not to be included in the gross taxable compensation.

10. Are regulated businesses located within the City of Pittsburgh such as banks, beer distributors, taverns, stock brokers, insurance companies or manufacturers subject to the Payroll Expense Tax?

Yes. Pursuant to Act 222 only Government entities are excluded from the requirements of filing the Payroll Expense Tax return.

11. If a general contractor hires subcontractors to perform work within the City of Pittsburgh, is the general contractor required to file and pay the Payroll Expense 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 Pittsburgh and remit all necessary business returns as required. The General Contractor will be required to remit the General Contractor Detail Report with their quarterly return listing all subcontractors hired to perform work within the City of Pittsburgh limits. The General Contractor Detailed Report must be completed and submitted with the last

quarter Payroll Expense form in which tax is due. The form can be found on the Finance website: <https://pittsburghpa.gov/finance/tax-forms>

12. If it is just my Partner and I operating a business within the City of Pittsburgh, do we still have to file and pay for the Payroll Expense 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 Expense 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.

13. A pizza shop sole proprietor takes out \$5,000.00 in the first quarter, \$5,000.00 in the second quarter, \$5,000.00 in the third quarter and \$15,000.00 in the fourth quarter. The sole proprietor's net profit for the year is \$30,000.00. What are the taxable distributions?

All of the \$30,000.00 in distributions is taxable.

14. A sole proprietor takes \$25,000.00 out of the business and the net profit was \$30,000.00. What are the taxable distributions?

\$25,000.00 is taxable.

15. A sole proprietor takes \$50,000.00 out of the business and the net profit was \$30,000.00. What are the taxable distributions?

\$30,000.00 is taxable.

16. 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 Expense Tax?

Yes, any person conducting business within the City of Pittsburgh (excluding exempt entities) must file and pay the Payroll Expense Tax.

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

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

compensation and tax due. If your entity will be discontinuing operations within the City of Pittsburgh or in general, you must complete a Business Change of Status form.

<https://pittsburghpa.gov/finance/tax-forms>

18. What if I am a charitable organization, do I owe Payroll Expense Tax?

A charitable organization shall calculate the tax that would otherwise be attributable to the City of Pittsburgh and file a return, but only shall pay the tax on the 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.

19. 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 Tax?

Yes- If the hospital is the owner of the gift shop. The payroll expense to operate the gift shop 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 or subsidiaries, 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 Expense Tax on any and all gross compensation paid to owners or employees.

20. What does the City consider “conducting business” within the City of Pittsburgh?

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

(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.

21. An individual owns 5 rental properties located in the City of Pittsburgh but has no employees. Would the individual be subject to the Payroll Expense Tax?

No. A person shall not be deemed to be engaged in business solely by reason of the receipts of income from passive investments for which no services are rendered. If the person hires an employee, said person would be subject to the Payroll Expense Tax. If an individual is subcontracted to perform work or maintenance on said property, the subcontractor must register his/her entity with the City of Pittsburgh and remit the necessary tax(es) due.

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

Yes. The business is subject to the Payroll Expense Tax for the time that work is performed within the City of Pittsburgh hospitals and/or other city locations. The payroll amount attributable to the City of Pittsburgh 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 Pittsburgh.

23. A construction company is located in the City of Pittsburgh and performs work within the City limits as well as outside of the City. How is the Payroll Tax calculated?

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

See example below:

PAYROLL EXPENSE (for Oct-Nov- Dec)

General Office Staff

Construction workers expense for work in Pittsburgh

Construction workers expense for work out of Pittsburgh

Total Payroll Expense

PAYROLL EXPENSE

\$90,000.00 – taxable

\$1,000,000.00 – taxable

\$500,000.00 – not taxable

\$1,090,000.00

Total Payroll Expense	\$1,090,000.00
Multiply Total Payroll Expense by Tax Rate	<u>X 0.0055</u>
Total Tax Due (Due on 2-28-19)	\$5,995.00

24. A corporation goes out of business within the City of Pittsburgh on November 1. The Payroll Expense for July, August and September was \$30,000.00. How do you calculate the Payroll Expense Tax for the fourth quarter?

Step 1: Divide the number of days the business operated for in the fourth quarter by the total number of days in the fourth quarter

$$\begin{aligned} &\frac{32 \text{ days (number of days business operated in fourth quarter)}}{92 \text{ days (total number of days in quarter from October through December)}} \\ &= \mathbf{0.34782609} \end{aligned}$$

Step 2: Multiply \$30, 0000 by the reciprocal 0.34782609

$$\begin{aligned} &\$30,000.00 \\ &\times \mathbf{0.34782609} \\ &= \mathbf{\$10,434.90} \text{ -- apportion amount of payroll expense tax} \end{aligned}$$

Step 3: Multiply the apportion amount of payroll expense tax by the tax rate

$$\begin{aligned} &\$10,434.90 \\ &\times \mathbf{0.0055} \\ &= \mathbf{\$57.39} \text{ -- total amount due} \end{aligned}$$

25. When is the Payroll Expense Tax Due?

The tax shall be paid quarterly:

QUARTER	DUE
FIRST	MAY 31
SECOND	AUG 31
THIRD	NOV 30
FOURTH	FEB 28/29