

biological children of Mr. Riley, they are his stepdaughters. Therefore, any remuneration paid to them is exempt from PA UC tax coverage until they reach the age of eighteen (18). At that time, if the twins continue to work for their stepfather's business, they would become covered employees and their remuneration must be reported on Forms UC-2 and UC-2A.

In the event you have a question about the coverage or exemption of family employment, and the examples provided here are not similar to your situation, please contact the Department of Labor and Industry by sending an e-mail to UC-news@state.pa.us, or by contacting the nearest Field Accounting Service office in your area. A list of these offices is enclosed for your reference.

For information about family employment and other UC tax issues, visit the Pennsylvania Unemployment Compensation website at www.state.pa.us, Keyword "unemployment".



DEPARTMENT OF
LABOR & INDUSTRY
COMMONWEALTH OF PENNSYLVANIA
Office of Unemployment Compensation
Tax Services

www.state.pa.us, Keyword
"unemployment"

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FAMILY EMPLOYMENT

COVERAGE AND EXEMPTION UNDER PENNSYLVANIA UNEMPLOYMENT COMPENSATION LAW



The Pennsylvania (PA) Unemployment Compensation (UC) Law Section 4(l)(4)(5) excludes from coverage (tax) service performed by an individual in the employ of his son, daughter or spouse, and the service performed by a child under the age of eighteen (18) in the employ of his father or mother.

Owners of an individual entity, also known as a sole proprietorship, and owners of a partnership are considered self-employed businesspersons. As such, remuneration paid to these owners is not considered “wages” and is not covered for PA UC tax purposes. The sole owners and individual partners are the employer entities. Thus, the employer entity *cannot* be an “employee.”

If the owners of the sole proprietorship or the partnership *incorporate the business*, the family members are no longer working for a relative. Instead, the family members are working for the corporate entity, thereby losing their family exemption status. Those family members who were covered prior to the incorporation of the business would continue to be covered employees as well.

In addition to *blood* relatives, “family” **also** includes:

- Stepchildren and their parents
- Foster children and their parents
- Adopted children and their parents

The following are some examples of both *covered* and *exempt* (excluded) family relationships.

EXAMPLE 1

Mr. Long owns a sole proprietorship and employs his wife, Mrs. Long, his 20-year-old son, his 17-year-old daughter and his own mother. The son would be a covered employee because he is **not** under the age of eighteen (18). The wife, daughter and mother of Mr. Long would be exempt from PA UC coverage due to their relationship to Mr. Long. However, the daughter’s wages would be covered after she reaches her eighteenth birthday if she continues to work for her father.

EXAMPLE 2

Mrs. Wood and her mother, Mrs. Howe, form a partnership that employs the spouses of two partners: Mr. Wood and Mr. Howe (father of Mrs. Wood.) For PA UC tax purposes, any remuneration paid to Mr. Wood for services performed is covered wages, while any remuneration paid to Mr. Howe is exempt.

When dealing with family employment of a partnership entity, the family member who works for the partnership must have an exempt relationship with each partner. Otherwise, all services are covered for PA UC tax purposes and all remuneration must be included when reporting gross and taxable wages on the Employer’s Report for Unemployment Compensation (Form UC-2) and Employer’s Quarterly Report of Wages Paid to Each Employee (Form UC-2A).

EXAMPLE 3

Mrs. Smith and her brother, Mr. Rice, form a partnership that employs the spouses of both partners. In this situation, the spouses of the partners are covered employees because each has an exempt relationship with only one of the partners. Mr. Smith is the spouse of Mrs. Smith but he is only the brother-in-law of Mr. Rice. Likewise, Mrs. Rice is the sister-in-law of Mrs. Smith. The services for both of these individuals are covered for PA UC tax purposes since there is no exemption provision in the PA UC Law for a brother-in-law or sister-in-law.

EXAMPLE 4

Mr. Walters formed a corporation, Walters and Co., of which he is 100% shareholder and President/CEO. His wife, Mrs. Walters, performs services as an Administrative Assistant for Walters and Co. The services performed by Mrs. Walters are covered and remuneration paid for services performed is taxable under the provisions of the PA UC Law because Mrs. Walters works for the corporation rather than for her husband. Thus, Mrs. Walters’ wages must be included on Forms UC-2 and UC-2A when reporting gross and taxable wages.

EXAMPLE 5

Mr. Riley owns a sole proprietorship. His wife, Mrs. Riley, has 16-year-old twin daughters from a previous marriage who work for Mr. Riley. Even though the twins are not the