



## MEMORANDUM

**To:** Honorable Joseph B. Scarnati, Chairman, Senate Labor & Industry Committee  
Honorable Bob Allen, Chairman, House Labor Relations Committee

**From:** Brian Kelly, Director, Government Affairs

**Date:** April 28, 2006

**Re:** Unemployment Compensation Law – Treatment of LLCs/RPCs

---

Attached is an article from the most recent Pennsylvania Unemployment Compensation Issues Update (Spring 2006) issued by the Department of Labor & Industry's Office of Unemployment Compensation Tax Services. In this article, you will note that the Department has re-interpreted Pennsylvania's UC Law as it pertains to LLCs (Limited Liability Corporations) and RPCs (Restricted Professional Companies).

Specifically, this drastic change in policy would have the effect that "all remuneration received by the members of an LLC and RPC for services performed is considered covered wages under the reporting provisions of the PA UC Law, unless the employer establishes an exemption."

Simply stated, owners of an LLC or RPC currently take their "salary" from funds they draw down from the business' revenue and do not pay UC tax upon them, as they do the salaries of their employees. This is logical, as these owners - by law considered sole proprietors or partners - would not be eligible to claim unemployment compensation if the LLC or RPC were to dissolve. In short, UCTS is demanding insurance money from those individuals who can never possibly lay a claim upon the state.

This new interpretation of the UC Law would be enormously detrimental to small businesses across the state, as well as a significant hindrance for start-up companies looking to establish themselves or expand in Pennsylvania.

We respectfully ask for your assistance in quickly taking measures to inquire as to the reasoning behind this new interpretation of the law.

*The Pennsylvania Chamber of Business and Industry is the largest broad-based business advocacy organization in Pennsylvania. Our thousands of statewide members employ more than 1.5 million employees – about 90 percent of the private workforce – and represent \$500 billion in annual sales. Our membership consists of every segment of the economy and every size business, from sole proprietor to major multi-national corporations.*