

Administrative Rule 600.94-1

Treatment of Currently Taxed Pass-Through Income

Business license tax and business income tax laws require that a tax be paid by a Partnership or S corporation doing business in the City and/or County. This tax is measured by the net income of the entity at the entity level.

To avoid potential double taxation of partnership and S corporation income (loss) as it flows through to a partner or shareholder who is also liable to pay a tax for business activities separate from the flow-through activities, the partner or shareholder will reverse all income (loss) items and attributes that passed through from a currently taxed entity.

If the partnership or S Corporation is not subject to the City of Portland Business License Tax and/or the Multnomah County Business Income Tax, the recipient entity is not entitled to reverse the net income (loss) pass-through items.

Example 1: Ace Tools, a partnership, is located in Portland and pays business taxes on incomes earned in Portland and Multnomah County. Partner B and Partner C have no other business activity or business incomes in Portland that would require either to pay business taxes in addition to business taxes paid by the partnership. Partner A owns a commercial building that he rents to the partnership and eight other tenants. Partner A must pay business taxes for Portland business incomes that are not incomes reported by the Ace Tools partnership.

The partnership had gross income of \$400,000 and an apportioned net income of \$100,000. The partnership paid \$2,200 for the business license tax and \$1,450 for the business income tax. The income was passed through to the partners as follows:

Partner A - \$75,000
Partner B - \$15,000
Partner C - \$10,000

Partner A had gross income of \$190,000 and net income of \$47,000 from his commercial building. In determining his net income, Partner A will exclude the \$75,000 passed through from the partnership and will not include Portland gross income from the partnership in either the numerator or denominator of the apportionment factor. In effect, Partner A would only report the gross and net income from his commercial rental if that is his only business income separate from the partnership.

Example 2: Bellevue Corporation, a taxpayer whose corporate income producing activity is performed solely in Multnomah County, is a partner in Costello Partnership. Costello Partnership conducts all its income producing activity in Vancouver, Washington. Bellevue receives pass-through income from Costello in the amount of \$2,400,500 (gross income of \$4,250,000). Since Costello Partnership is not required to file or pay the County business income tax, Bellevue will not exclude the pass-through income from Costello when determining net income, and will include the pass-through gross income from Costello in the denominator of the apportionment formula for business tax purposes.

Adopted: 8/29/94

Amended: 8/10/09 (housekeeping changes)

(PCC 7.02.600 / MCC12.600)