

Business Tax Administrative Rule 500.17-1

Pay Ratio Surtax

Publicly traded companies that are subject to the Business License Tax in the City of Portland must pay a surtax on the tax paid if the CEO-to-median worker compensation ratio is equal to or above 100:1. If the ratio is equal to or above 100:1 but less than 250:1, the surtax is 10%. If the ratio is equal to or above 250:1 the surtax is 25%.

Example 1: A large publicly traded banking company pays the City of Portland \$250,000 in regular Business License Tax. Their CEO-to-median worker pay ratio is 1,000:1 as reported to the Securities and Exchange Commission (SEC). The taxpayer would have to pay a surtax of \$62,500; total tax due to the City of Portland would be \$312,500.

Example 2: A large publicly traded restaurant company pays the City of Portland \$60,000 in tax. Their CEO-to-median worker pay ratio is 200:1. The taxpayer would be at the 10% surtax rate and would have a surtax of \$6,000; total tax due to the City of Portland would be \$66,000.

Generally, a consolidated Oregon return is filed in the name of the common parent corporation. If the parent corporation is not doing business in Oregon, a company files the return in the name of the member of the group having the greatest presence in Oregon. Generally, in these circumstances the Revenue Division will look to the parent corporation, presumably the publicly traded company that is subject to the SEC filing requirement, for the CEO-to-median worker compensation pay ratio to determine if the subsidiary taxpayer is subject to the pay ratio surtax. If the taxpayer believes that using this methodology will result in an assessment that does not fairly represent the taxfiler's circumstance, the taxfiler may petition the Director to permit an exception based on facts and circumstances.

Example 3: XYZ, a subsidiary of ABC company, is doing business in the City of Portland. ABC is a publicly traded company. XYZ files an Oregon Form 20 with ABC company listed as the parent corporation. XYZ's regularly-calculated City of Portland Business License Tax is \$10,000 (before any CEO-to-median worker pay ratio). ABC company has a CEO-to-median worker pay ratio of 267:1 as reported per the SEC rules and is subject to the 25% surtax. XYZ owes the City of Portland \$12,500 (\$10,000 regular tax plus \$2,500 surtax) with their Combined Tax Return.

This surcharge only applies to the City of Portland Business License Tax. It does not apply to the Multnomah County Business Income Tax.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires publicly traded companies to disclose:

- the median of the annual total compensation of all its employees, except the CEO;
- the annual total compensation of its CEO; and
- the ratio of those two amounts.

Refer to the Dodd-Frank Act and other SEC rules for more information on how the pay ratio is calculated.

Adopted: XX/XX/2017

DRAFT