



Proposed Portland Business License Tax Rate and Owner's Compensation Changes: Taxpayer Impact Analysis

May 2018

Revenue Division
Bureau of Revenue and Financial Services
Office of Management and Finance
City of Portland, Oregon

Background

The Mayor's fiscal year 2018-2019 Proposed Budget proposes to amend the Portland Business License Law (Portland City Code Chapter 7.02) by:

- Raising the Owner's Compensation Deduction to \$125,000 per owner (currently \$103,500)
- Raising the tax rate to 2.6% (currently 2.2%)
- Both changes would be effective for tax year 2018

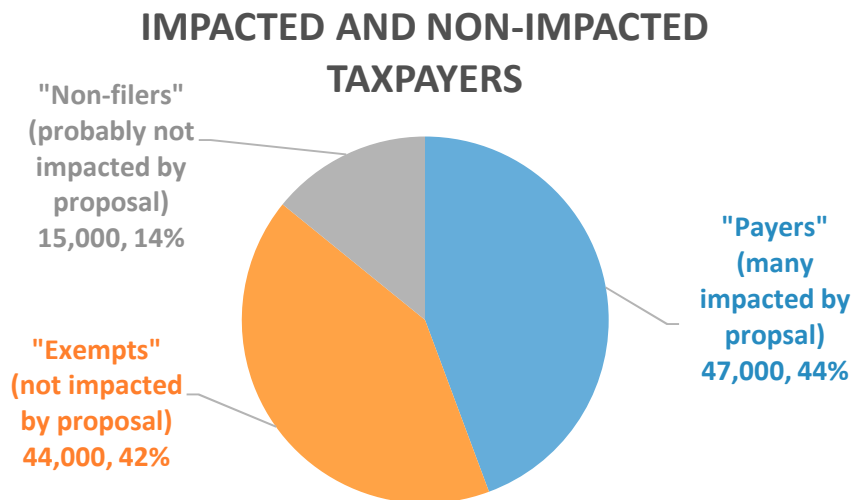
This proposal would raise \$15.6 million in business income taxes on approximately 29,000 taxpayers and lower taxes by a total of \$300,000 for approximately 1,600 other taxpayers. This proposal will raise \$15.3 million in ongoing net revenue for the City's General Fund.

This document provides an overview of the projected impact to various taxpayers under this proposal. It provides an aggregated view, narrows to more specific impacts by entity type, and finally provides 16 sample scenarios based on typical Portland businesses. All data is based on the most recently available tax filing.

Overview of Impacted and Non-Impacted Taxpayers

The Revenue Division currently has tax records for 106,000 Portland business taxpayers as below:

- 47,000 taxpayers had a tax liability ("Payers") in the most recent tax year, many of which will be impacted by the proposal either positively or negatively
- 44,000 taxpayers are exempt ("Exempts") from the tax (most have gross receipts under \$50,000) and would not be impacted by the proposal
- 15,000 taxpayers have not filed a tax return ("Non-filers") in a recent year and may or may not be subject to the proposal (most probably unimpacted)

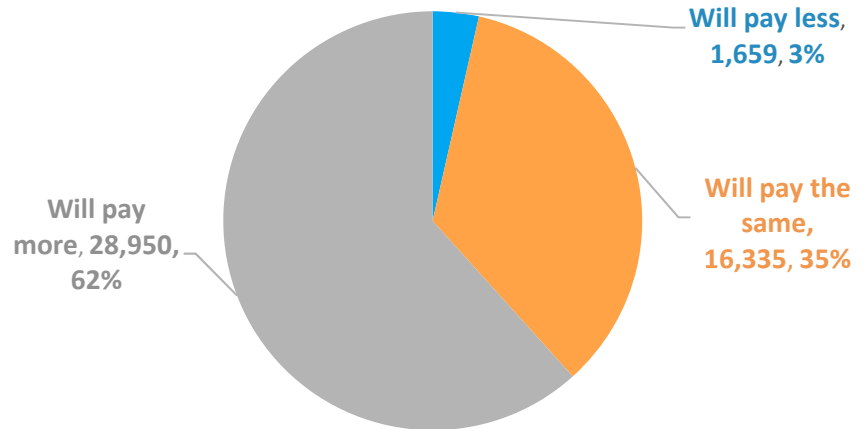


Impact of Proposed Change on Payers

Combining the Owner's Compensation Deduction increase with a 0.4% tax rate increase will impact 46,944 tax paying businesses (businesses that had a tax liability in a recent tax year) as follows:

- 1,659 taxpayers would **pay LESS** tax (totaling \$315,190)
- 16,335 taxpayers would have **NO CHANGE** to their tax
- 28,950 taxpayers would **pay MORE** tax (totaling \$15,604,040)

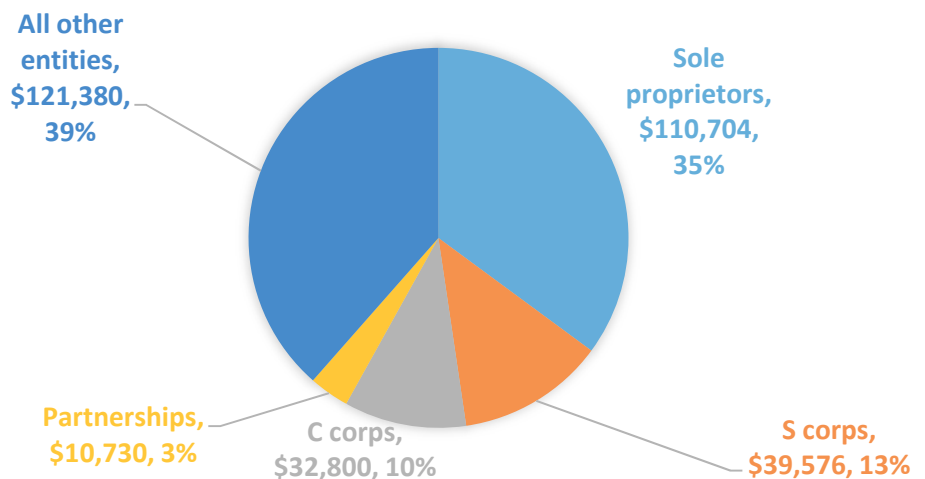
IMPACT TO PAYING TAXPAYERS



Of the 46,944 impacted taxpayers, the 1,659 that would **pay LESS** tax are as follows:

- 160 C corporations would pay an average of \$205 less, with a median reduction of \$110, a minimum reduction of \$1, and a maximum reduction of \$1,710. The tax reduction for all C corporations combined is \$32,800 of the \$315,190 in overall reductions.
- 291 S corporations would pay an average of \$136 less with a median reduction of \$89, a minimum reduction of \$1 and a maximum reduction of \$1,500. The tax reduction for all S corporations combined is \$39,576 of the \$315,190 in overall reductions.
- 814 sole proprietors would pay an average of \$136 less with a median reduction of \$111, a minimum reduction of \$1 and a maximum reduction of \$613. The tax reduction for all sole proprietors combined is \$110,704 of the \$315,190 in overall reductions.
- 37 partnerships would pay an average of \$290 less with a median reduction of \$241, a minimum reduction of \$13 and a maximum reduction of \$1,066. The tax reduction for all partnerships combined is \$10,730 of the \$315,190 in overall reductions.

SHARE OF \$315,190 TAX REDUCTION, BY ENTITY TYPE



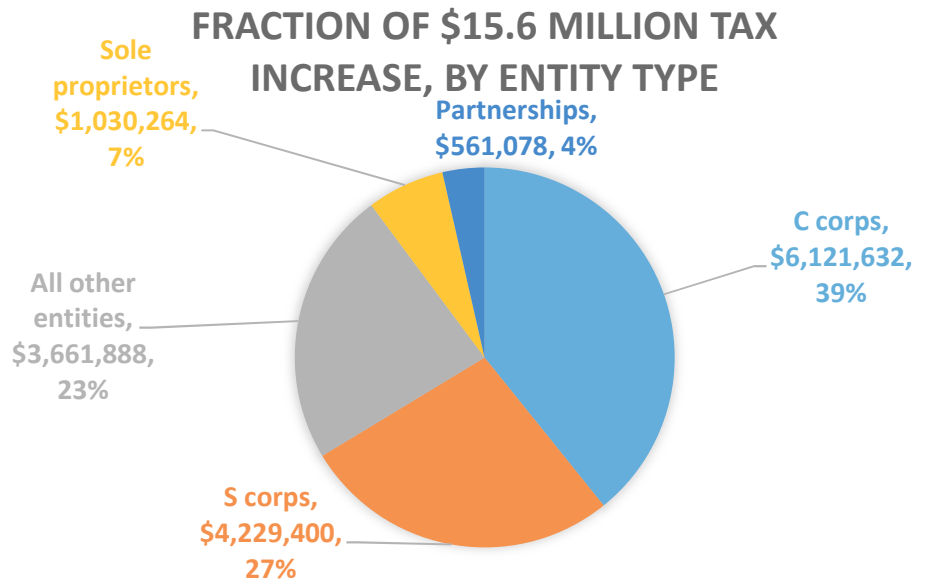
- 357 entities of all other types (LP, LLP, LLC, etc.) would pay an average of \$340 less with a median reduction of \$160, a minimum reduction of \$1 and a maximum reduction of \$17,823. The tax reduction for all other entity types combined is \$121,380 of the \$315,190 in overall reductions.

Of the 46,944 impacted taxpayers, 16,335 would have **NO CHANGE** in their tax (and would continue paying the \$100 minimum) as follows:

- 2,222 C corporations
- 3,432 S corporations
- 7,875 sole proprietors
- 246 partnerships
- 2,560 entities of all other types (LP, LLP, LLC, etc.)

Of the 46,944 impacted taxpayers, 28,950 would **pay MORE** tax as follows:

- 2,904 C corporations would pay an average increase of \$2,108, a median increase of \$177, a minimum increase of \$1 and a maximum increase of \$364,861. The total tax increase for all C corporations combined is \$6,121,632 of the \$15,604,262 overall increase.



- 9,975 S corporations would pay an average increase of \$424, a median increase of \$123, a minimum increase of \$1 and a maximum increase of \$43,725. The total tax increase for all S corporations combined is \$4,229,400 of the \$15,604,262 overall increase.
- 11,576 sole proprietors would pay an average increase of \$89, a median increase of \$41, a minimum increase of \$1 and a maximum increase of \$19,101. The total tax increase for all sole proprietors combined is \$1,030,264 of the \$15,604,262 overall increase.
- 549 partnerships would pay an average increase of \$1,022, a median increase of \$74, a minimum increase of \$2 and a maximum increase of \$237,015. The total tax increase for all partnerships combined is \$561,078 of the \$15,604,262 overall increase.
- 3,946 entities of all other types (LP, LLP, LLC, etc.) would pay an average increase of \$928, a median increase of \$87, a minimum increase of \$1 and a maximum increase of \$162,308. The total tax increase for all entities of other types is \$3,661,888 of the \$15,604,262 overall increase.

Examples of Taxpayer Impact

This section is organized by entity type. Find the entity type of interest to review sample impacts for typical business operations. These impacts are *not intended to illustrate every possible scenario*, they highlight common scenarios.

Sole Proprietors

Sole Proprietors	Scenario A - Minimum Payer (no change in tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 5P- Adjusted Net Income or (Loss)	\$15,000	\$15,000
Line 6P- Compensation Allowance Deduction	(\$11,250)	(\$11,250)
Line 7P- Subject Net Income	\$3,750	\$3,750
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$3,750	\$3,750
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$3,750	\$3,750
Line 22- Tax (line 21 x tax rate)	\$100	\$100

Sole Proprietors	Scenario B - Residential Rental Owner (pays \$35 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 5P- Adjusted Net Income or (Loss)	\$35,000	\$35,000
Line 6P- Compensation Allowance Deduction	(\$26,250)	(\$26,250)
Line 7P- Subject Net Income	\$8,750	\$8,750
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$8,750	\$8,750
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$8,750	\$8,750
Line 22- Tax (line 21 x tax rate)	\$193	\$228

Sole Proprietors	Scenario C - "Big" Payer (pays \$273 less tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 5P- Adjusted Net Income or (Loss)	\$175,000	\$175,000
Line 6P- Compensation Allowance Deduction	1 owner: (\$103,500)	1 owner: (\$125,000)
Line 7P- Subject Net Income	\$71,500	\$50,000
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$71,500	\$50,000
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$71,500	\$50,000
Line 22- Tax (line 21 x tax rate)	\$1,573	\$1,300

Sole Proprietors	Scenario D - Principal Broker (pays \$175 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 5P- Adjusted Net Income or (Loss)	\$175,000	\$175,000
Line 6P- Compensation Allowance Deduction	2 owners: (\$131,250)	2 owners: (\$131,250)
Line 7P- Subject Net Income	\$43,750	\$43,750
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$43,750	\$43,750
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$43,750	\$43,750
Line 22- Tax (line 21 x tax rate)	\$963	\$1,138

S-Corporations

S-Corporations	Scenario A - Restaurant Owner (pays \$260 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$65,000	\$65,000
Line 4P- Compensation Paid (# of controlling shareholders)	1 Controlling Shareholders: \$13,000	1 Controlling Shareholders: \$13,000
Line 5P- Adjusted Net Income	\$78,000	\$78,000
Line 6P- Compensation Allowance Deduction	(\$13,000)	(\$13,000)
Line 7P- Subject Net Income	\$65,000	\$65,000
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$65,000	\$65,000
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$65,000	\$65,000
Line 22- Tax (line 21 x tax rate)	\$1,430	\$1,690

S-Corporations	Scenario B - Professional Services (pays \$256 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$250,500	\$250,500
Line 4P- Compensation Paid (# of controlling shareholders)	2 Controlling Shareholders: \$300,000	2 Controlling Shareholders: \$300,000
Line 5P- Adjusted Net Income	\$550,500	\$550,500
Line 6P- Compensation Allowance Deduction	(\$207,000)	(\$250,000)
Line 7P- Subject Net Income	\$343,500	\$300,500
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$343,500	\$300,500
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$343,500	\$300,500
Line 22- Tax (line 21 x tax rate)	\$7,557	\$7,813

S-Corporations	Scenario C - Consulting Company (pays \$230 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$30,000	\$30,000
Line 4P- Compensation Paid (# of controlling shareholders)	4 Controlling Shareholders: \$200,000	4 Controlling Shareholders: \$200,000
Line 5P- Adjusted Net Income	\$230,000	\$230,000
Line 6P- Compensation Allowance Deduction	(\$172,500)	(\$172,500)
Line 7P- Subject Net Income	\$57,500	\$57,500
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$57,500	\$57,500
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$57,500	\$57,500
Line 22- Tax (line 21 x tax rate)	\$1,265	\$1,495

S-Corporations	Scenario D - Construction Company (pays \$1,002 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$250,500	\$250,500
Line 4P- Compensation Paid (# of controlling shareholders)	2 Controlling Shareholders: \$100,000	2 Controlling Shareholders: \$100,000
Line 5P- Adjusted Net Income	\$350,500	\$350,500
Line 6P- Compensation Allowance Deduction	(\$100,000)	(\$100,000)
Line 7P- Subject Net Income	\$250,500	\$250,500
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$250,500	\$250,500
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$250,500	\$250,500
Line 22- Tax (line 21 x tax rate)	\$5,511	\$6,513

C- Corporations

C-Corporations	Scenario A - Financial Services (pays \$1,002 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$250,500	\$250,500
Line 4P- Compensation Paid (# of controlling shareholders)	No Controlling Shareholders: \$0	No Controlling Shareholders: \$0
Line 5P- Adjusted Net Income	\$250,500	\$250,500
Line 6P- Compensation Allowance Deduction	\$0	\$0
Line 7P- Subject Net Income	\$250,500	\$250,500
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$250,500	\$250,500
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$250,500	\$250,500
Line 22- Tax (line 21 x tax rate)	\$5,511	\$6,513

C-Corporations	Scenario B - Professional Services (pays \$15,538 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$4,500,500	\$4,500,500
Line 4P- Compensation Paid (# of controlling shareholders)	8 Controlling Shareholders: \$1,330,000	8 Controlling Shareholders: \$1,330,000
Line 5P- Adjusted Net Income	\$5,830,500	\$5,830,500
Line 6P- Compensation Allowance Deduction	(\$828,000)	(\$1,000,000)
Line 7P- Subject Net Income	\$5,002,500	\$4,830,500
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$5,002,500	\$4,830,500
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$5,002,500	\$4,830,500
Line 22- Tax (line 21 x tax rate)	\$110,055	\$125,593

C-Corporations	Scenario C - Equipment Rentals (pays \$427 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$115,000	\$115,000
Line 4P- Compensation Paid (# of controlling shareholders)	1 Controlling Shareholders: \$105,000	1 Controlling Shareholders: \$105,000
Line 5P- Adjusted Net Income	\$220,000	\$220,000
Line 6P- Compensation Allowance Deduction	(\$103,500)	(\$105,000)
Line 7P- Subject Net Income	\$116,500	\$115,000
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$116,500	\$115,000
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$116,500	\$115,000
Line 22- Tax (line 21 x tax rate)	\$2,563	\$2,990

C-Corporations	Scenario D - Mortgage Brokerage (no change in tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	(\$150,000)	(\$150,000)
Line 4P- Compensation Paid (# of controlling shareholders)	2 Controlling Shareholders: \$100,000	2 Controlling Shareholders: \$100,000
Line 5P- Adjusted Net Income	(\$50,000)	(\$50,000)
Line 6P- Compensation Allowance Deduction	\$0	\$0
Line 7P- Subject Net Income	(\$50,000)	(\$50,000)
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	(\$50,000)	(\$50,000)
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	(\$50,000)	(\$50,000)
Line 22- Tax (line 21 x tax rate)	\$100	\$100

Partnerships

Partnerships	Scenario A - Merchant Wholesaler (pays \$301 less tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$168,000	\$168,000
Line 4P- Compensation Paid (# of GPs, Limited Partners)	1 General Partner: \$0	1 General Partner: \$0
Line 5P- Adjusted Net Income	\$168,000	\$168,000
Line 6P- Compensation Allowance Deduction	(\$103,500)	(\$125,000)
Line 7P- Subject Net Income	\$64,500	\$43,000
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$64,500	\$43,000
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$64,500	\$43,000
Line 22- Tax (line 21 x tax rate)	\$1,419	\$1,118

Partnerships	Scenario B - Commercial Property Leasing (pays \$113 less tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$215,000	\$215,000
Line 4P- Compensation Paid (# of GPs, Limited Partners)	1GP, 2 Limited Partners: \$50,000	1GP, 2 Limited Partners: \$50,000
Line 5P- Adjusted Net Income	\$265,000	\$265,000
Line 6P- Compensation Allowance Deduction	(\$153,500)	(\$175,000)
Line 7P- Subject Net Income	\$111,500	\$90,000
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$111,500	\$90,000
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$111,500	\$90,000
Line 22- Tax (line 21 x tax rate)	\$2,453	\$2,340

Partnerships	Scenario C – Caterer (pays \$45 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$45,000	\$45,000
Line 4P- Compensation Paid (# of GPs, Limited Partners)	4 General Partners: \$0	4 General Partners: \$0
Line 5P- Adjusted Net Income	\$45,000	\$45,000
Line 6P- Compensation Allowance Deduction	(\$33,750)	(\$33,750)
Line 7P- Subject Net Income	\$11,250	\$11,250
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$11,250	\$11,250
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$11,250	\$11,250
Line 22- Tax (line 21 x tax rate)	\$248	\$293

Partnerships	Scenario D - Physician's Clinic (pays \$214 more tax)	
Tax return line number	2.2% Rate and \$103,500 Deduction	2.6 % Rate and \$125,000 Deduction
Line 1P- Ordinary Income or (Loss)	\$260,000	\$260,000
Line 4P- Compensation Paid (# of GPs, Limited Partners)	2 General Partners: \$20,000	2 General Partners: \$20,000
Line 5P- Adjusted Net Income	\$280,000	\$280,000
Line 6P- Compensation Allowance Deduction	(\$207,000)	(\$210,000)
Line 7P- Subject Net Income	\$73,000	\$70,000
	100% Apportionment	100% Apportionment
Line 19- Portland Apportioned Net Income	\$73,000	\$70,000
Line 20- Net Operating Loss Deduction	\$0.00	\$0.00
Line 21- Income Subject to Tax	\$73,000	\$70,000
Line 22- Tax (line 21 x tax rate)	\$1,606	\$1,820