

Portland/Multnomah Business Tax

This summary is intended to inform attorneys regarding the rules for the City of Portland/Multnomah County tax returns as it impacts the revenue and income from their law practice. Information regarding revenues/income subject to the tax that would not typically be encountered in a law practice is also included, as it may be applicable to some attorneys with other business activities.

Who Must File

In general, a Portland/Multnomah County business income tax return is required for self-employed individuals and entities (both partnerships and corporations) engaging in any of the following activities within City of Portland or Multnomah County:

- 1) Delivering goods or providing services to customers
- 2) Owning, leasing, or renting personal or real property
- 3) Earning revenue from intangible property (e.g. royalties)
- 4) Selling business property for a gain

An individual or entity doing business within the City or County is required to register their business within 60 days of starting their operations.

Annual Exemption Request:

A taxpayer may be exempt from filing if total gross receipts (before expenses) from all activities everywhere (both inside and outside City or County limits), is less than \$50,000. If the taxpayer qualifies for this exemption, they are still required to register their business and file the "Annual Exemption Request Form" with the City of Portland each year. The taxpayer must file a business tax return each year that gross receipts exceed \$50,000.

Note: "All activities everywhere" for self-employed individuals means receipts/revenue of the type enumerated above including for example the royalties on the gas well in Oklahoma that was inherited from Aunt Minnie and your share of the revenues from your 1/3 interest in the rental house in Kentucky. The net income, if any, from these activities should be apportioned away, but those revenues would aggregate with the revenue from your law practice for purposes of the \$50,000 filing requirement test. Similarly for entities, all business income from within and outside the City/County aggregate with the revenue from your law practice for purposes of the \$50,000 filing requirement test.

De Minimus Exemption:

If a sole proprietor's or Single Member LLC's business activity is not routine or continuing, they may qualify for a "De Minimus" exemption policy provided the following criteria are met for the three most recent tax years:

- 1) Total gross receipts from all sources everywhere is less than \$20,000, *OR*
- 2) The only business activity everywhere is ownership of two or fewer residential rental units and total gross rents is less than \$50,000 (but only if there are no commercial rentals, no business activity or business property sales).

Sole proprietors/Single Member LLCs that qualify for this exemption must file the "De Minimus Exemption Form", which will create a business account with the City of Portland, however, the taxpayer will have no further filing requirements until they lose exemption status. At that point, the taxpayer will need to either file an "Annual Exemption Request Form" (if they meet the \$50,000 exemption) or a City of Portland/Multnomah County business income tax return.

Apportionment of Income

While the City of Portland and Multnomah County taxes are filed using a single form, taxes are calculated separately by apportioning the taxpayer's net income to the City and County. Apportionment only applies to taxpayers that have gross receipts earned within and outside the City/County.

To apportion total taxable income to the City of Portland and Multnomah County, the taxpayer will need to determine the following information:

- 1) Gross receipts earned within the City of Portland
- 2) Gross receipts earned within Multnomah County
- 3) Total gross receipts earned from all activities everywhere

The taxpayer's net income is apportioned to either the City or County by multiplying the total subject net income by the ratio of gross receipts earned within the specified area to total receipts earned everywhere.

Example: A taxpayer living in Portland is self-employed and in computing their Federal tax return, reported net income on their Schedule C of \$70,000. The taxpayer also reported net income from Portland-based rental properties of \$10,000 on their Schedule E. The taxpayer determined that total gross receipts earned everywhere from all activities was \$400,000, gross receipts earned within Portland was \$175,000 and gross receipts earned within Multnomah County was \$250,000.

The total subject net income to apportion is \$80,000 (\$70,000 + \$10,000). The City of Portland apportionment percentage is 44% (\$175,000 / \$400,000) and the Multnomah County apportionment percentage is 63% (\$250,000 / \$400,000). The apportioned net income subject to City of Portland tax is \$35,200 (\$80,000 x 0.44) and the apportioned net income subject to Multnomah County tax is \$50,400 (\$80,000 x 0.63).

The following guidelines should be considered when computing gross receipts earned within the City of Portland and Multnomah County:

- 1) Sale of tangible product will be considered to have taken place within City or County limits if the product is delivered or shipped to a purchaser within the City or County. If the purchaser is outside the City or County, the sale is not allocated to the City or County.
- 2) All rental income from real or personal property physically located inside City or County limits is allocated to the City or County, regardless of where the taxpayer is physically located.
- 3) Services performed wholly within the City or County limits are allocated fully to the City or County.
 - a. If the services are rendered partially inside and outside of the City or County limits, the taxpayer must calculate the ratio of time spent performing the services within the City or County compared to the total time spent performing the services everywhere.

Example: A taxpayer spends 50 hours rendering services for a client outside of Portland and bills the client \$10,000. The taxpayer spent 40 hours in their Portland-area office performing the services and 10 hours at the client's office. Of the total gross revenue received for the services, \$8,000 is apportioned to Portland/Multnomah County (\$10,000 x 40/50 hours).

- 4) Gains from the sale of property physically located within the City/County are apportioned, but losses are not apportioned.

In most cases, if the income was earned within the City of Portland, it was also earned within Multnomah County. However, not all areas of Portland are contained within Multnomah County. Taxpayers can reference the City of Portland website to consult whether or not they are doing business in a City of Portland/Multnomah County zip code.

Calculating the Tax

The tax rates for the City of Portland and Multnomah County are 2.2% and 1.45% respectively. However, both the City and County have a minimum tax rate of \$100 each, meaning that a taxpayer's minimum tax liability due on their business tax return will be \$200 (\$100 to Portland, \$100 to Multnomah County).

Taxpayers may carry forward apportioned net operating losses up to a maximum of 5 years to offset potential future City or County apportioned income. While a taxpayer may carry forward the whole amount of any net operating loss generated, the amount they can use to offset future income is limited to 75% of the income reported in subsequent years.

Example: In the current year, the taxpayer calculates a net operating loss apportioned to Multnomah County of \$8,000. The \$8,000 may be carried forward up to 5 years to be used to reduce any future Multnomah County apportioned income. In the subsequent year, the taxpayer has Multnomah County apportioned net income of \$4,000. The taxpayer may apply their net operating loss carry forward, limited to 75% of the net income ($\$4,000 \times 0.75 = \$3,000$). As a result, the current year net income is reduced to \$1,000, and net operating loss carry forward available is reduced to \$5,000.

When to File

The City of Portland/Multnomah County business tax return is due April 15 for calendar year taxpayers and may be filed online or by mail. Taxpayers may request a 6 month extension of time to file their business tax return by filing online or completing and mailing an extension form to the City of Portland. A properly filed extension only extends the time to file the business tax return, not the time to pay the tax.

Online Resources

- City of Portland business tax homepage: <http://www.portlandoregon.gov/revenue/29320>
- Download the latest business tax forms: <http://www.portlandoregon.gov/revenue/29558>
- City of Portland Business Tax Code: <http://www.portlandonline.com/auditor/?c=28807>
- Multnomah County Business Tax Code: <http://web.multco.us/sites/default/files/county-attorney/documents/ch12.pdf>

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