

EXHIBIT A

What is fair?

A discussion of potential changes to the Portland's Business License Fee

DRAFT Revised: December 1, 2006

Presentation prepared by Commissioner Sam Adams and Warren Jimenez, Senior Policy Director
with the assistance from the Office of Management & Finance

Unless otherwise noted, source of data in this presentation was provided by the Office of Management & Finance

Purpose of this
presentation:

To share information,
answer questions,
and obtain feedback on
options to improve the equity of
the Business License Fee.

First, what is the draft
proposal?

Draft Proposal

1. Increase owner's compensation deduction to \$125,000
2. Raise Gross Receipts Exemption to \$50,000
3. Institute a progressive minimum tax based on:
 - a. Employees
 - b. Gross Revenues in Portland **OR**
 - c. Combination of both options

In Multnomah County, **94.2%** of all firms are small businesses (50 employees or less).

Source: Statistics provided by Oregon Employment Department for First Quarter of 2005 and the Small Business Administration Small Business Profile of Oregon (2005).

In Multnomah County **20,494** small businesses employ **126,192** people with a payroll of approximately \$1.1 billion.

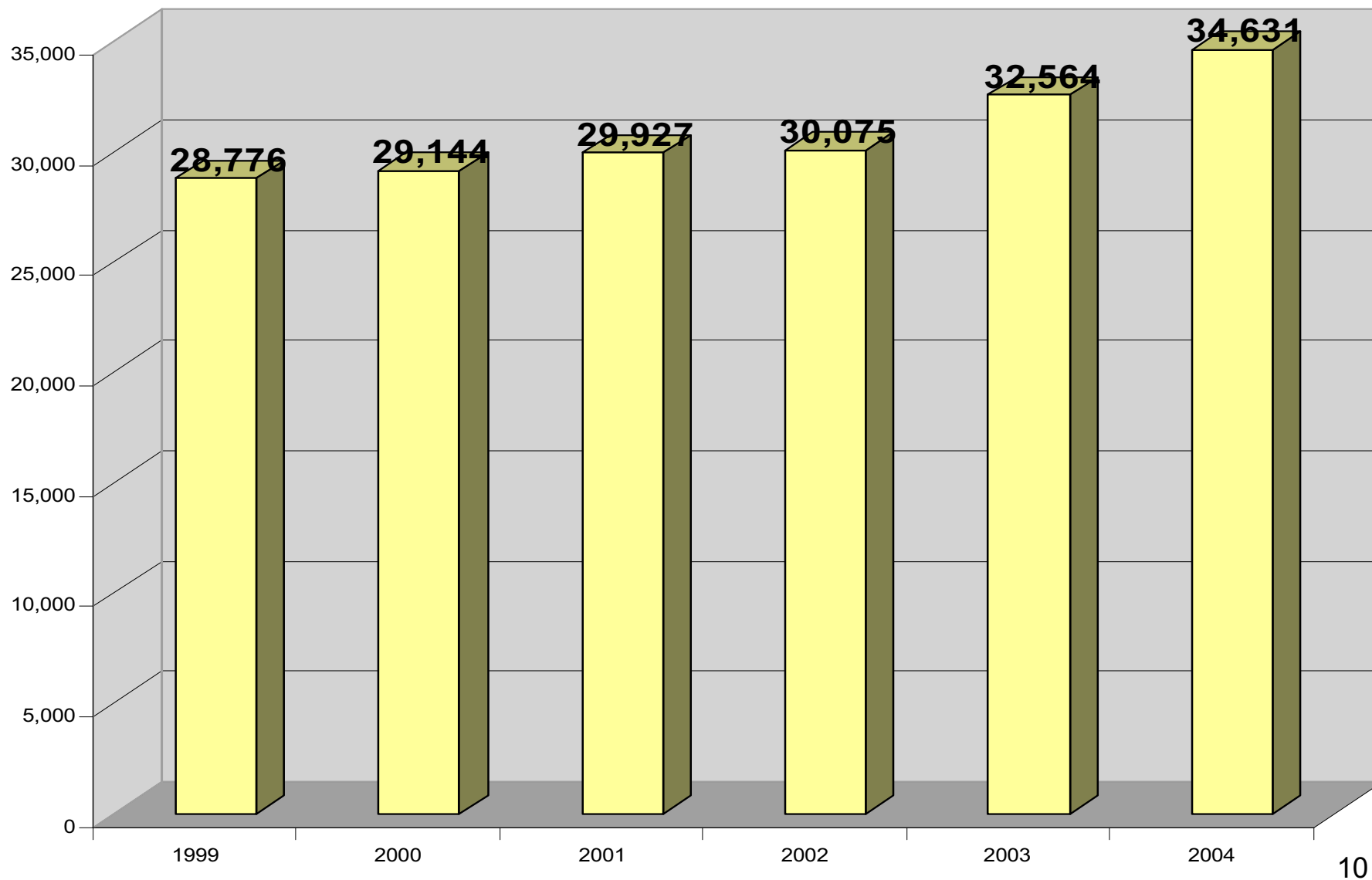
Of these, almost **13,000** (over half) are micro-enterprises with five or less employees.

Source: Statistics provided by Oregon Employment Department for First Quarter of 2005 and the Small Business Administration Small Business Profile of Oregon (2005).

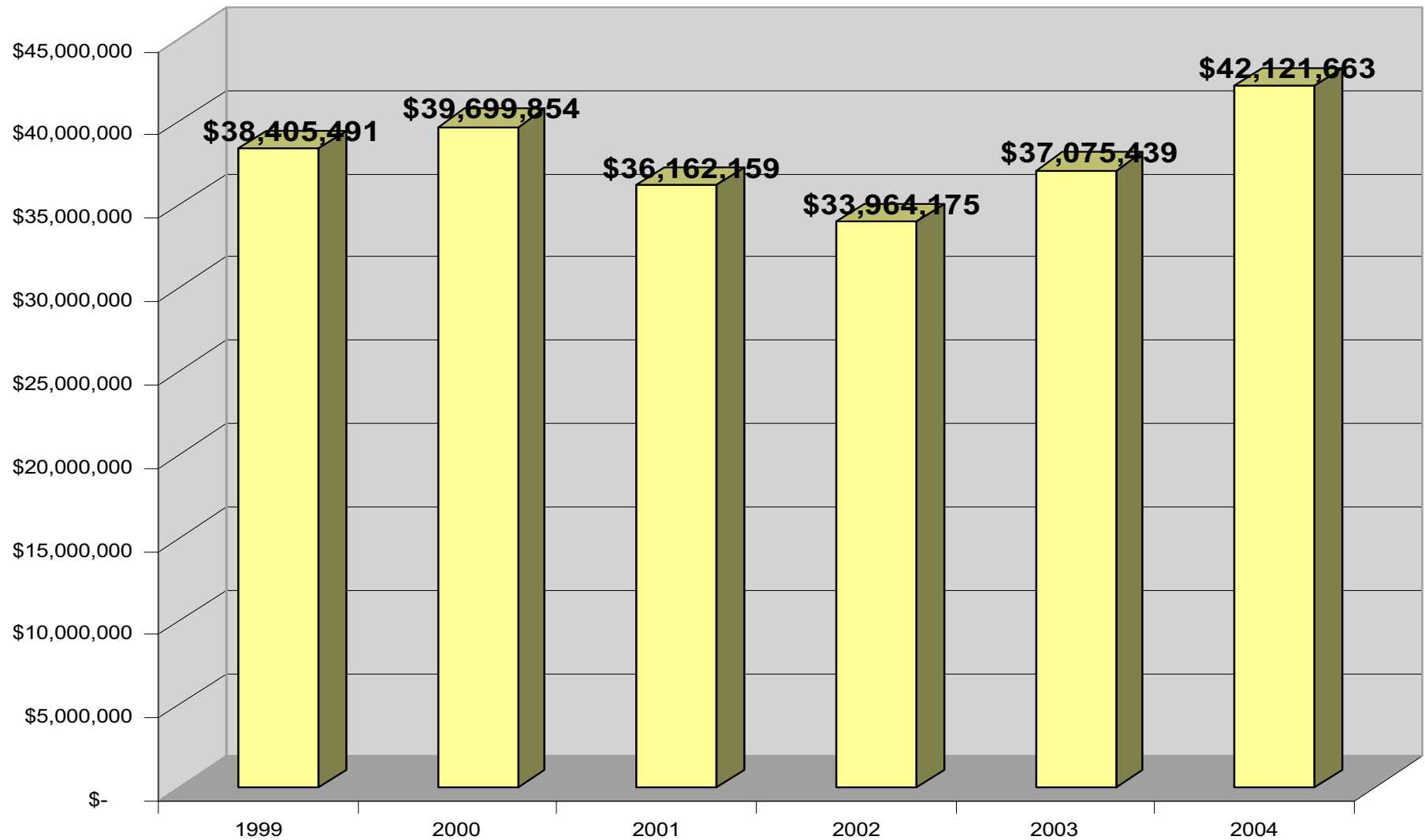
In Portland....

For 2004, we can go
deeper with BLF data....

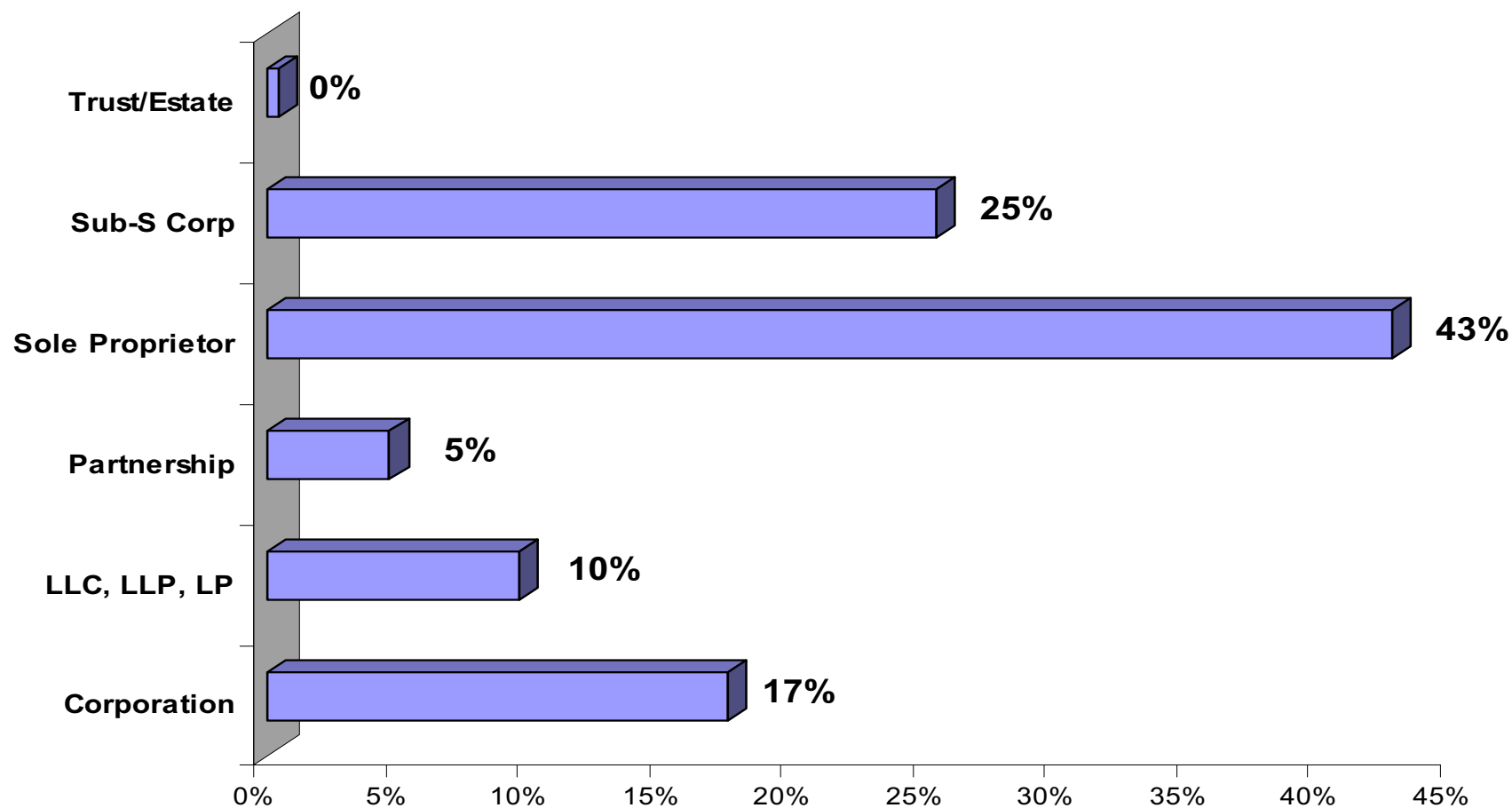
Total BLF Accounts, 1999-2004



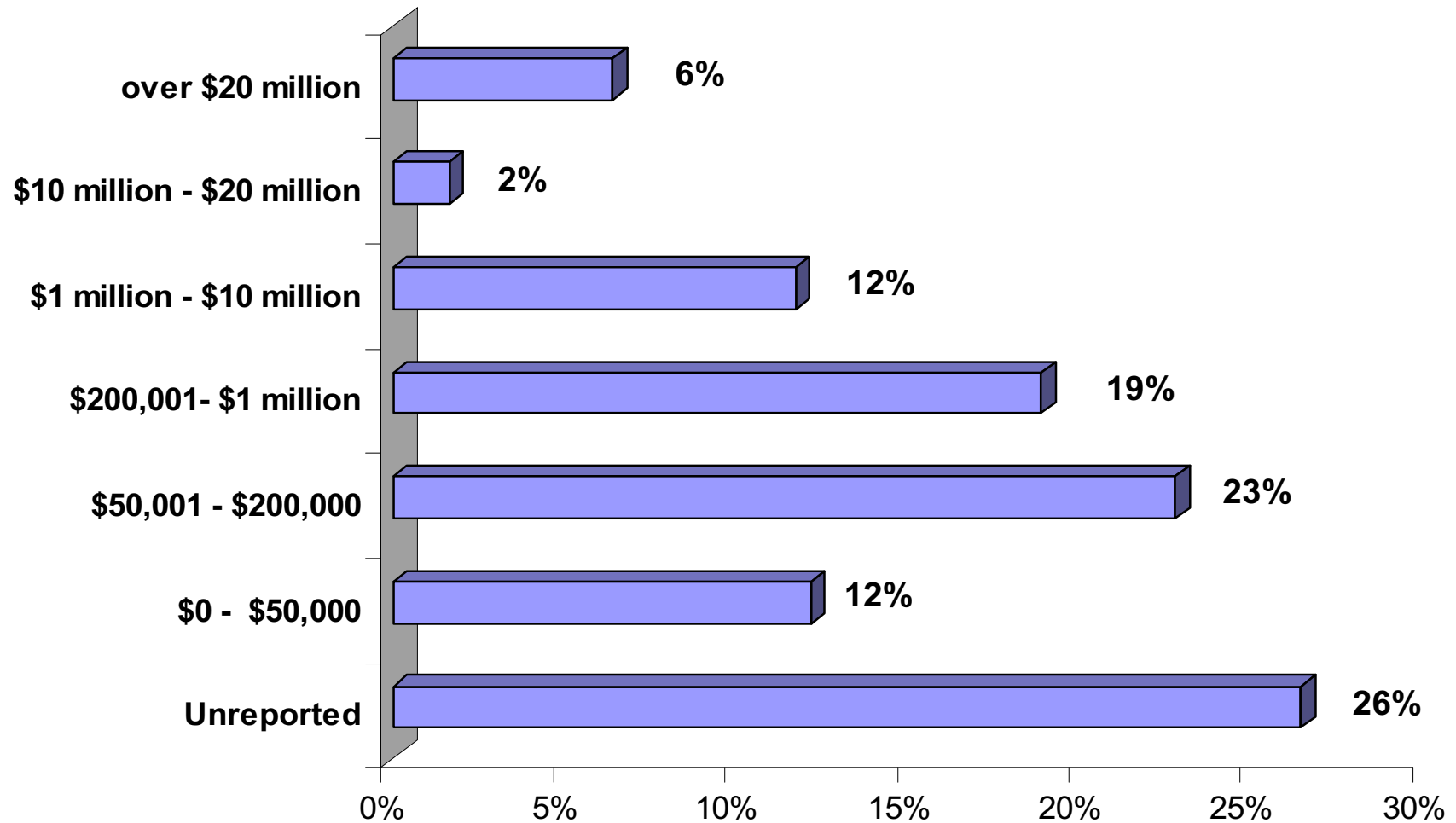
Total BLF Tax Liability, 1999-2004



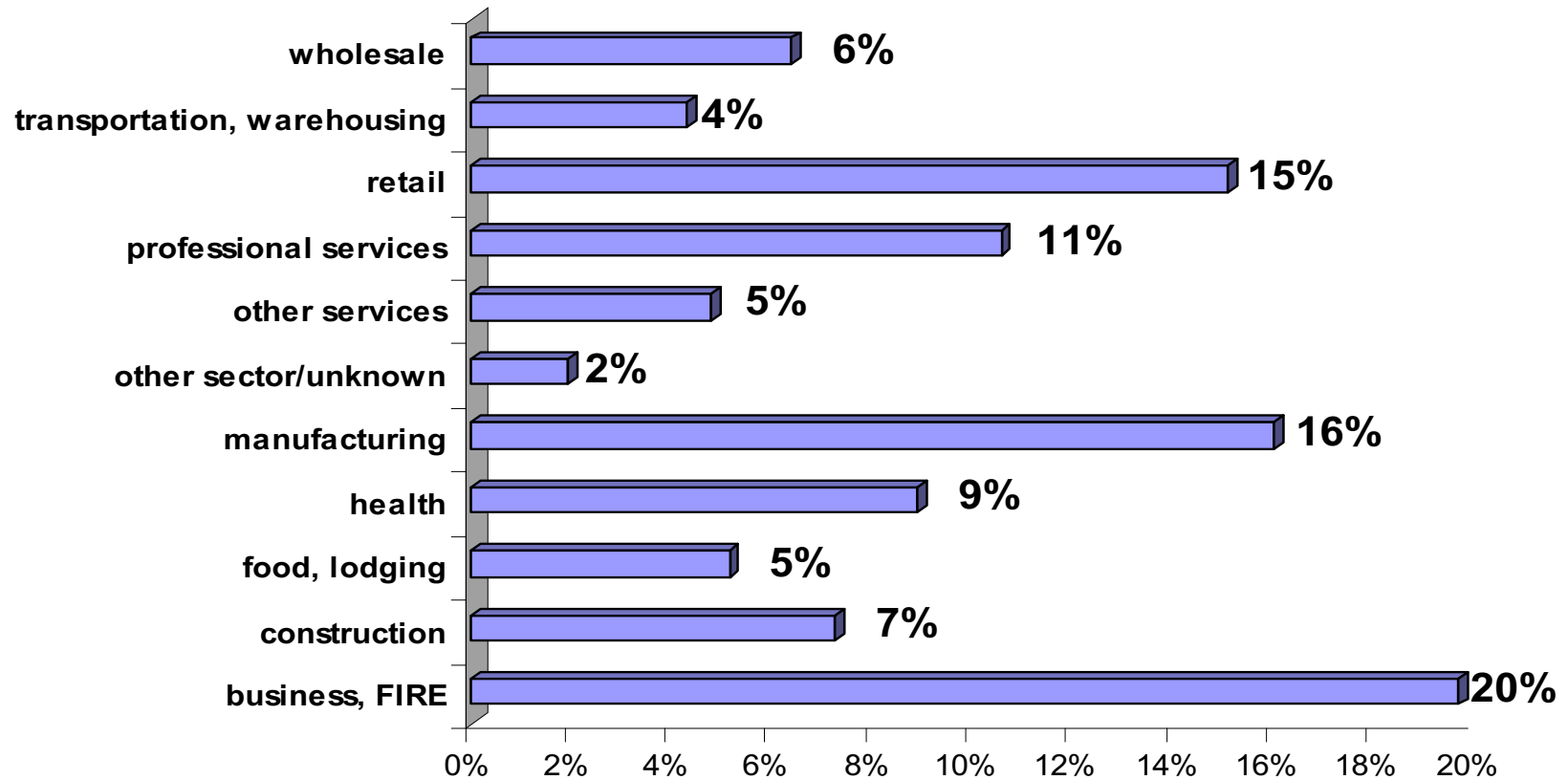
Businesses by Entity, 2004



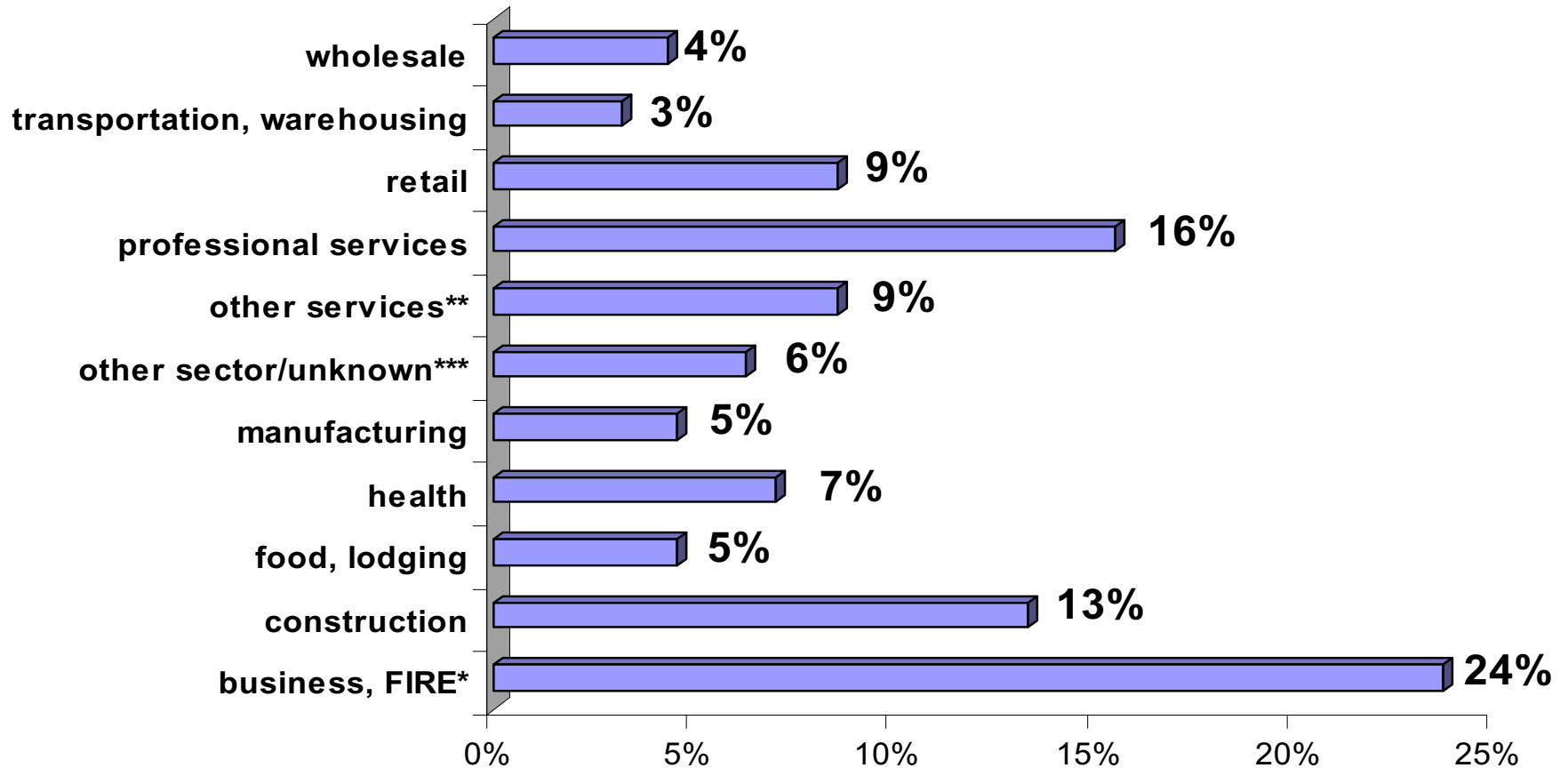
Businesses by Gross Receipts, 2004



Businesses by Industry, 2004



Businesses by Industry, # of employees, 2004



Estimated using employee data collected during 2003.

Prototypical Portland Business

- Sole Proprietor
- 100% of Revenues generated with the City
- Revenues of \$200,000 or less
- Business Service, FIRE

**Two perceptions
stand in the
way of an accurate
discussion of business
tax reform:**

“Portland’s BLF tax makes it unfriendly to business.”

VS.

“Oregon has the lowest state business taxes in the U.S.”

perceptions

“Portland BLF tax makes it unfriendly to business.”

Tue, Nov 8, 2005

Software company moves out of tax's reach

Firm leaves Portland, joining 14 others citing city-county business fee

The Tribune By JIM REDDEN

Another Portland company has moved out of town, largely because of the combined City of Portland-Multnomah County Business Income Tax.

Integrated Data Concepts Inc....According to a survey conducted last year by the Portland Business Alliance, at least 14 other companies have left Portland since 2003 in part because of the BIT. They include: Ralph Shaw Venture Partners, which moved to unincorporated Washington County; Kuni BMW, which moved to Beaverton; Albina Fuel Co., which moved to Vancouver, Wash.; and a Wells Fargo Bank call center, which also moved to Vancouver.

reality

*Overall, Portland ranks 20th out of 200 for
“Best Places for Business” in Forbes
Magazine’s 2006.*



#20 Portland OR

Population: 2,089,100

	RANK
🎓 Colleges ¹	12
💰 Cost of Doing Business ²	8
🏠 Cost Of Living ³	145
🚓 Crime Rate ⁴	150
🎭 Culture & Leisure ⁵	43
🎓 Educational Attainment ⁶	49
📈 Income Growth*	181
🔧 Job Growth*	115
🏠 Net Migration*	43
🌐 Overall	20

¹Measure of 4-year colleges in area with extra credit for highly rated schools.

²Index based on cost of labor, energy, taxes and office space.

³Index based on cost of housing, utilities, transportation and other expenditures.

⁴Crimes per 100,000 residents.

⁵Index based on museums, theaters, golf course, sports teams and other activities.

⁶Share of Population over age 25 with a bachelor's degree or higher.

* 5-year annualized figures.

NA: Not available, not applicable.

Sources: *Economy.com*; *Sperling's BestPlaces*; *FBI Index of Crime*.



© Shutterstock

See Also:

- [Oregon Metros](#)
- [Richest People In Oregon](#)
- [Smaller Oregon Metros](#)

- Local taxes on businesses and owners creates an incentive for small, closely-held, highly profitable firms to locate outside of Multnomah County ...taxes are more onerous relative to Washington for firms with relatively high profit margins and profits that are passed through to owners/partners. Conversely, Washington's Business & Occupation tax is more onerous on firms with relatively low profit margins.
- Professional Service firms pay a large share of Portland and Multnomah County's business income taxes. These revenues decrease as the firms extend their customer bases outside of the taxing jurisdictions. Firms with many relatively highly compensated owners experience a higher tax burden than do firms that are not closely held or have only a few owners/partners.

Source: Portland Competitiveness Study by ECONorthwest, 2004

License and Tax Requirements for Other Cities

- Beaverton
 - \$50 (1-4 employees) plus an additional \$8.50 per employee on an annual basis
- Gresham
 - \$75 (1-2 employees) plus an additional \$3 per employee on an annual basis
- Hillsboro
 - \$80 initial application fee plus \$5-\$830 based on number of employees
- Vancouver, WA
 - \$125 per year. Also requires regulatory license based on type of business
- Tualatin
 - \$55-\$240 based on number of employees

Taxes: Portland, OR vs Vancouver, WA

Business: Attorney Firm - 3 owners + 8 employees

Gross income \$2,100,000.00
Net Income \$620,000.00 (flow to owner on personal returns)

	Portland	Vancouver
Local Bus License	\$ 9,900	\$ 125
Local Bus Tax	\$ 6,500	\$ -
Local Sales Tax	\$ -	\$ 3,950
Local Transit Tax	\$ 7,600	Note 1
Total Local Taxes	\$ 24,000	\$ 4,075

Note 1: Included as an additional rate on sales tax.

Taxes: Portland, OR vs Vancouver, WA

Business: Wholesaler (Corporation)

Gross income \$1,620,000.00
Net Income (\$22,122.00)

	Portland	Vancouver
Local Bus License	\$ 100	\$ 125
Local Bus Tax	\$ -	\$ -
Local Sales Tax	\$ -	\$ 530
Local Transit Tax	\$ 1,600	\$ 30
Total Local Taxes	\$ 1,700	\$ 655

Taxes: Portland, OR vs Washington County (Beaverton)

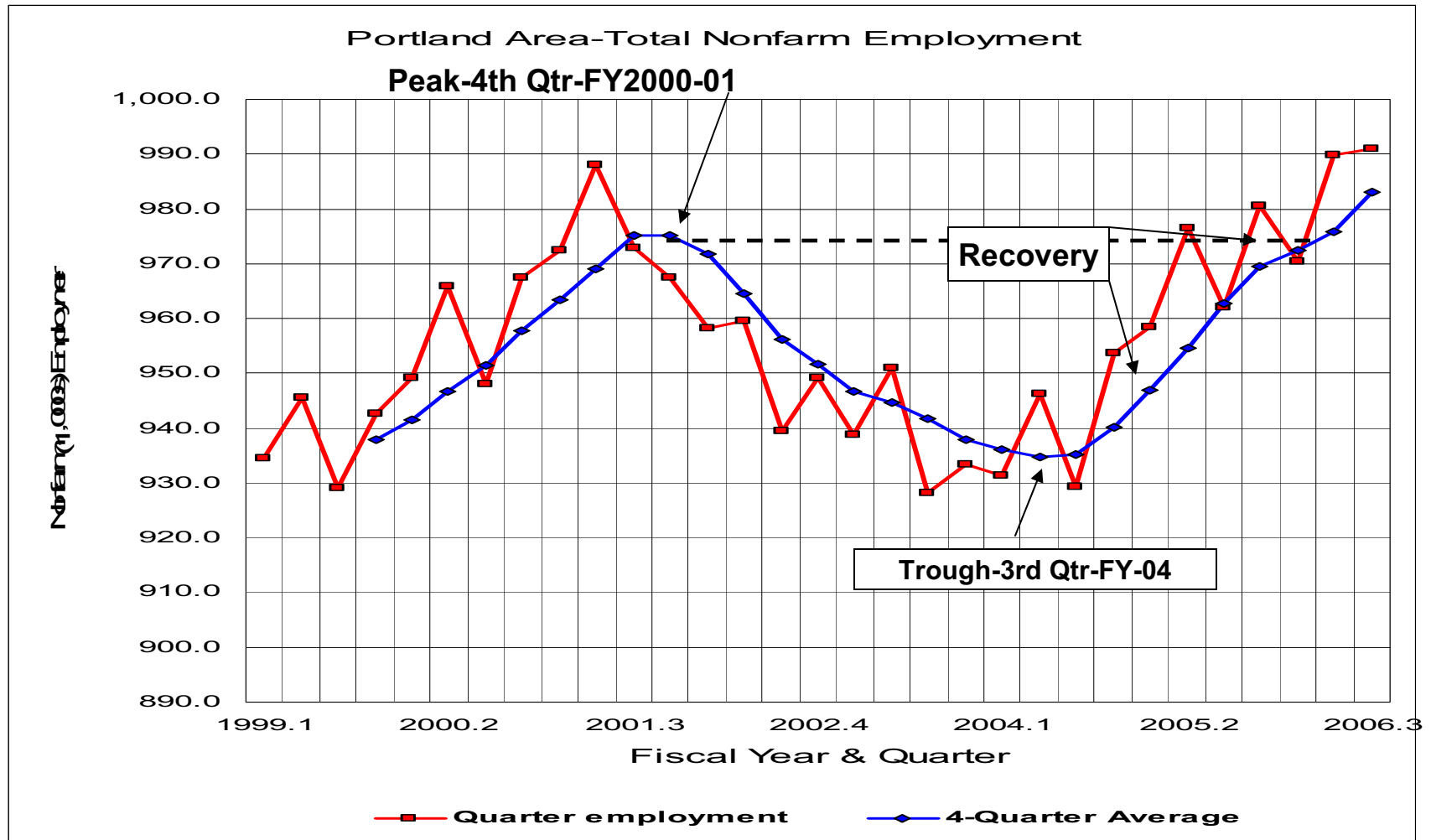
Business: Manufacturer (Corporation) with sale of Real Property

Gross income	\$10,000,000.00
Gross payroll	\$3,000,000.00
Net Income	\$1,000,000.00

	Portland	Beaverton
Business in Portland	5%	0%
Local Bus License	\$ 1,320	\$ 441
Local Bus Tax (County)	\$ 870	\$ -
Property Transfer Tax (County)	\$ -	\$ 2,500
Local Transit Tax	\$ 18,000	\$ 18,000
Total Local Taxes	\$ 20,190	\$ 20,941

Are Businesses Fleeing Portland?

2004: Depth of PDX Recession



2004: Closed BLF Accounts

Accounts that filed in 2004 but are now "closed"	Total Accounts	% of Total Closed Accounts	% of Total Accounts (34,631)	Total BLF
Ceased Business (no continuing activity)	553	46.0%	1.6%	\$306,732
Moved business out of Portland but stayed in tri-county(no Portland activity)	86	7.0%	0.2%	\$55,510
Closed Portland location of multiple location entity	22	2.0%	0.1%	\$6,175
Entity change or merger (new entity still in Portland & filing returns)	308	25.5%	0.9%	\$591,597
Exempt (or filing in error)	100	8.0%	0.3%	\$23,304
Out of Portland contractor w/o Portland activity	72	6.0%	0.2%	\$81,640
Not Out-of-Business/Closed (account reinstated)	67	5.5%	0.2%	\$11,500
TOTALS	1,208	100%	3%	\$1,076,458
TOTALS	661		1.9%	368,417

2004: Who Moved

Types	Number	% of Total	% of Total Closed Accounts (661)
Professional Services	33	38.4%	5.0%
Other Services	20	23.3%	3.0%
Business Services	12	14.0%	1.8%
Manufacturing, Const., Transp., Wholesale	8	9.3%	1.2%
FIRE	5	5.8%	0.8%
Retail	4	4.7%	0.6%
Other	2	2.3%	0.3%
Total	86	100.0%	12.7%

2003/2004: SEA Business Survey

	<u>2004</u>	<u>2003</u>
OVERALL:		
How do you rate Portland as a place to do business?		
Very good	9.4%	8.0%
Good	37.0%	40.0%
Neither good nor bad	26.1%	26.0%
Bad	17.3%	16.0%
Very bad	10.3%	10.0%
Total Respondents	1859	1996
Source: 2005 SEA Report		

More to consider.....

- ***Five year job growth*** in the region is up **3.6%**, while down **1.8%** in Portland. (Source: U.S. Bureau of Labor Statistics)
- Portland share in the region's ***jobs*** has ***decrease*** from **28.3%** to **26.8%** in five years. (Source: U.S. Bureau of Labor Statistics)
- In 2004, Portland/Vancouver MSA ***earnings*** increased **7%**, while Multnomah County increased **4.6%**. (Source: Bureau of Economic Analysis)

***“Portland BLF makes
it unfriendly to business”***

Reality

- Portland and Multnomah have the highest local business tax disparity in the region.
- Highly profitable, closely-held professional service firms with many out-of-City customers that will “follow” them out of the City have the biggest tax incentive to leave Portland.
- In 2004, Portland lost a reported <2% of its BLF accounts and realized a net increase of over 2000 BLF accounts.
- In 2004, 48% of Portland business owners/managers rated “Very Good/Good” as place to do business.
- ***Five year job growth*** in the region is up **3.6%**, while down **1.8%** in Portland. (Source: U.S. Bureau of Labor Statistics)
- Portland share in the region’s ***jobs*** has ***decrease*** from **28.3%** to **26.8%** in five years. (Source: U.S. Bureau of Labor Statistics)

*“Oregon has the lowest
business taxes in the U.S.”*

perceptions

Sunday, April 30, 2006

Oregon tax burden drifting away from corporations

PORTLAND (AP) — The deadline for filing tax returns is not a particularly pleasant day for many people. But it's not so bad for corporations that do business in Oregon.

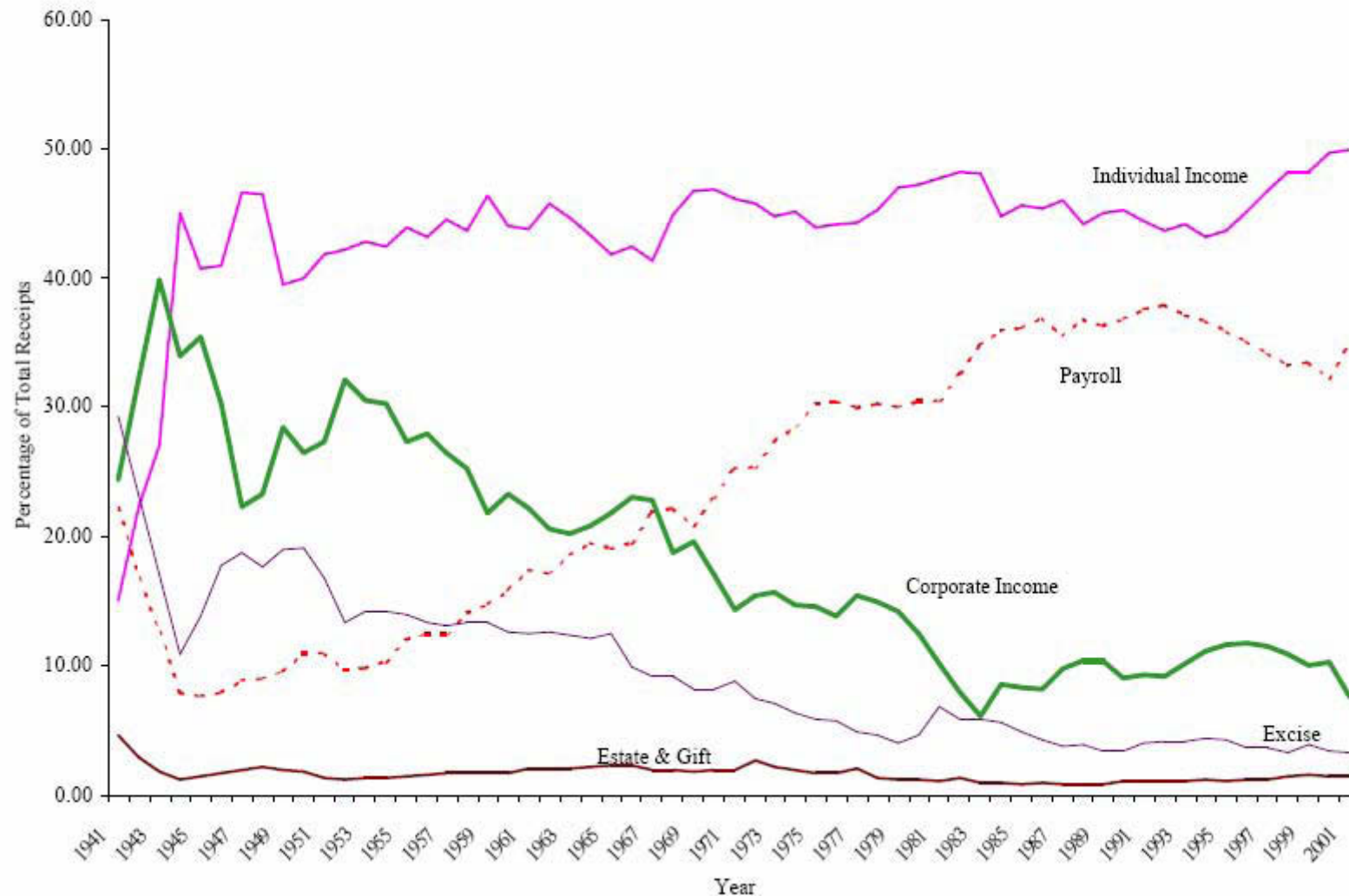
For two decades, state lawmakers have reshaped tax policy to lessen the tax burden for corporations. As a result, no state asks businesses to pay a lighter share of its state budget than Oregon does, according to the Council on State Taxation, which represents big business.

Oregon residents are expected to pay \$10.6 billion over the next two years, while corporations that do business in the state will pay an anticipated \$705 million...

reality

Trends in business taxes - Federal

Federal Tax Receipts as a Percentage of Total Federal Receipts, 1940-2001



Trends in business taxes - State

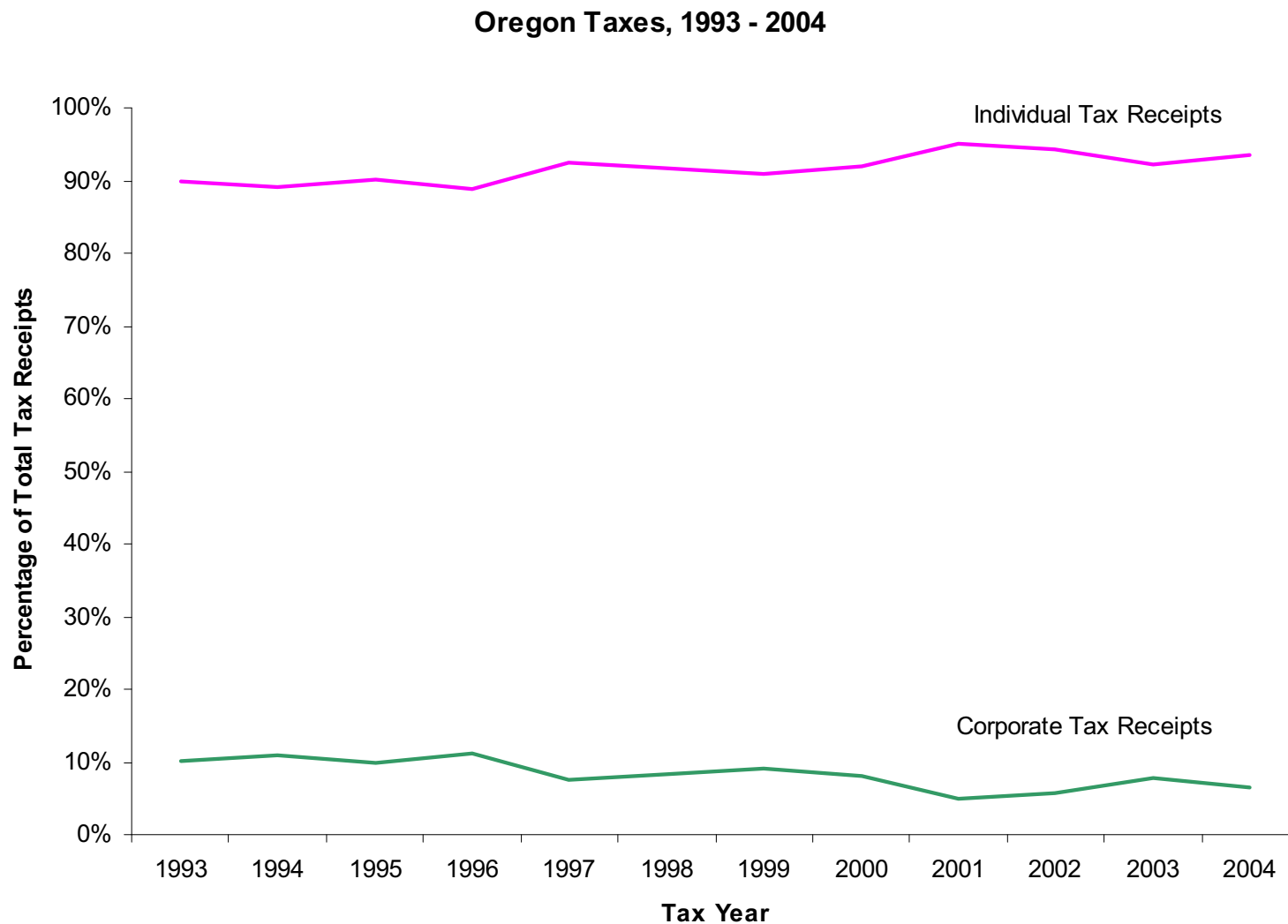
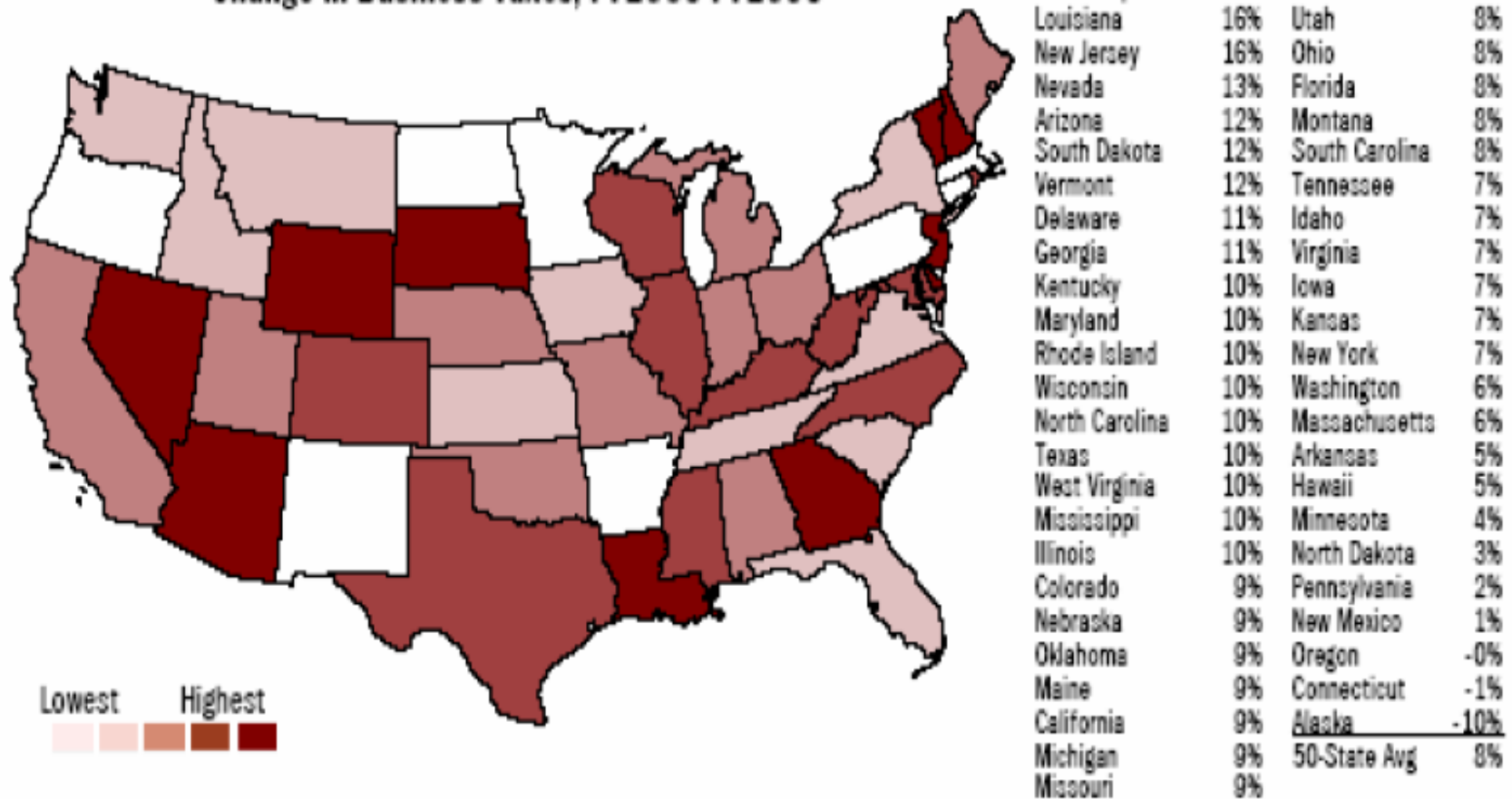


Figure 2
Change In Business Taxes, FY2000-FY2003



•During 2000-2003 business taxes assessed in State grew an average of 8% nationally. Oregon grew 0%. (Source: Ernest and Young)

“Oregon has the lowest business tax burden in the U.S.”

Reality

- Oregon residents are expected to pay \$10.6 billion over the next two years.
- Corporations that do business in the state will pay an anticipated \$705 million.

CONCLUSION:

Portland has the highest local business tax in the region.....in the nation's lowest business tax burden state.

Some more
basic **facts**
about
the BLF tax.

What is the BLF?

- With some exceptions and exemptions, the City of Portland Business License Fee (BLF) law requires anyone doing business within the city's boundary to first obtain a license and pay a fee.
- This estimated fee is based upon the actual net income earned within the city's boundary during the year (or partial year) of a business.

When did the BLF begin?

- Since 1854 the City of Portland has assessed a business license fee on a variety of businesses and activities in Portland.
- Since 1975 the BLF has been assessed by net income apportioned for activity performed in Portland.

What is a “business”?

A person(s) can form a legal business entity that will be treated legally and for tax purposes as something separate from those who own that entity.

Business Entity Types:

1. Sole Proprietorship
2. Corporation: C Corp
3. Corporation: S Corp
4. Partnership: General
5. Partnership: Limited
6. Limited Liability Company (LLC)

Why chose one type vs. another?

Differences between entities are in three areas:

- Limit liability - the extent to which a claim against the business entity can also be a claim against the owners of the business entity.
- Control of the business entity - who makes the management decisions.
- Taxation of the entity's income - how many layers of taxation occur between the entity's generation of income and the distribution of that income to its owners.

Sole Proprietorship:

Is an individual conducting business in their own name. There is no separate legal business entity. This form is frequently used by small business. While a sole proprietorship can operate using an assumed business name, that does not create a separate legal business entity. Business income is taxable at the individual's tax rate, just as wages. A sole proprietor is fully liable for any claims against the business.

Corporations:

C corporation

- Formed by one or more individuals (unlimited number)
- Provides limited liability to the shareholders
- Run by a Board of Directors selected annually by the shareholders (centralized management)
- Income earned by the corporation is taxed to the corporation since it is a separate entity. Any income distributed to the shareholders will be taxed again at the individual shareholder tax rate.

Corporations (continued):

S corporation (C Corp that has made a tax election w/IRS)

- Formed by one to 75 shareholders (certain types of shareholders prohibited)
- Provides limited liability to the shareholders
- Run by a Board of Directors selected annually by the shareholders (centralized management)
- Income earned by the corporation is passed through to the shareholders, so there is no corporate tax. However, the individual pays tax on the full allocated share of income, not on a cash dividend. Tax is due regardless of any cash distribution from the business to pay it.

Partnerships:

General Partnership

- Formed by two or more individuals, structure is very flexible.
- Provides no limited liability to the partners. Partners are jointly and severally liable for debts and can attach personal assets.
- No centralized management, each partner has an equal say in management of the business.
- Income earned by the partnership is passed through to the partners based upon their share of ownership and is taxed at their individual rate, even if no cash is distributed by the partnership.

Partnerships (continued):

Limited Partnership

- Formed by two or more individuals with at least one general partner and one or more limited partners.
- Provides limited liability to the limited partner(s) only.
- General partner(s) provide management, limited partners have little input in decisions.
- Income earned by the partnership is passed through to the partners based upon their share of ownership and is taxed at their individual rate, even if no cash is distributed by the partnership.

Limited Liability Company (LLC):

- Formed by one or more individuals (members)
- Provides limited liability to the members
- Management can be by the members (like a general partnership) or can be managed by a manager (like a corporation) and the members choose the manager much like a Board of Directors.
- Income earned by the LLC is passed through to the members based upon their share of ownership and is taxed at their individual rate, even if no cash is distributed by the LLC.

Businesses that don't pay the BLF:

- NOT Businesses with Gross Receipts less than \$25,000
- NOT Non profit businesses (501 c)
- NOT Real estate salesperson (by state law)
- NOT Insurance agent (by state law)
- NOT Individual with less than 10 residential rentals
- NOT Agriculture products that are sold by those that grow them and are not processed in any way (other than harvesting)
- NOT Sale of personal property acquired for household use (example: garage sales twice a year)
- NOT Affiliated participant at a trade show, festival, etc., for less than 14 days in any tax year.

Businesses that pay the BLF:

Businesses that pay the BLF:

Again, with some exceptions and exemptions, this estimated fee is based upon the actual net income earned within the city's boundary during the year (or partial year) of a business.

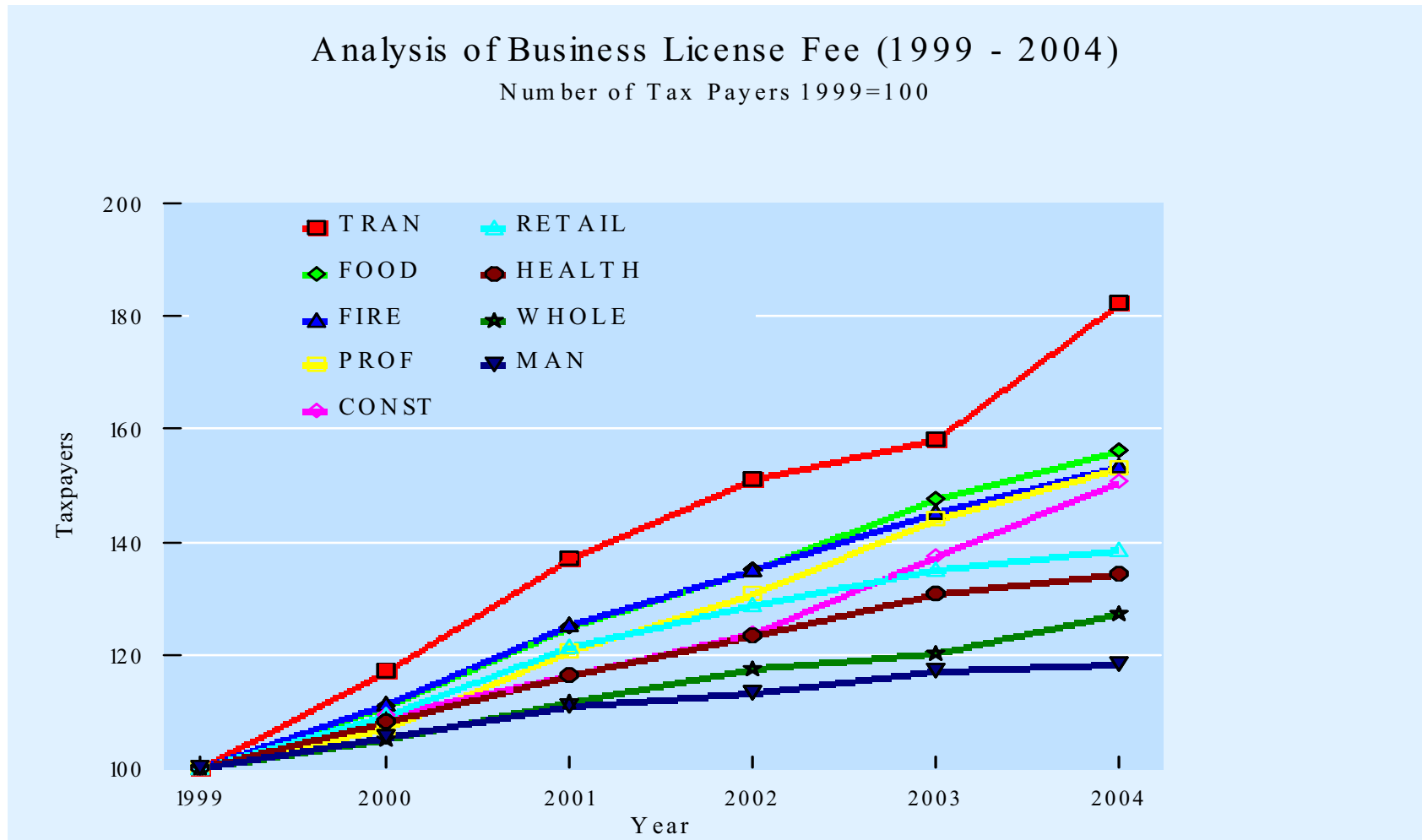
Why do some businesses pay the minimum BLF?

If a business operates in PDX, but all of their gross receipts are generated from outside of PDX, then they would not pay on these gross receipts.

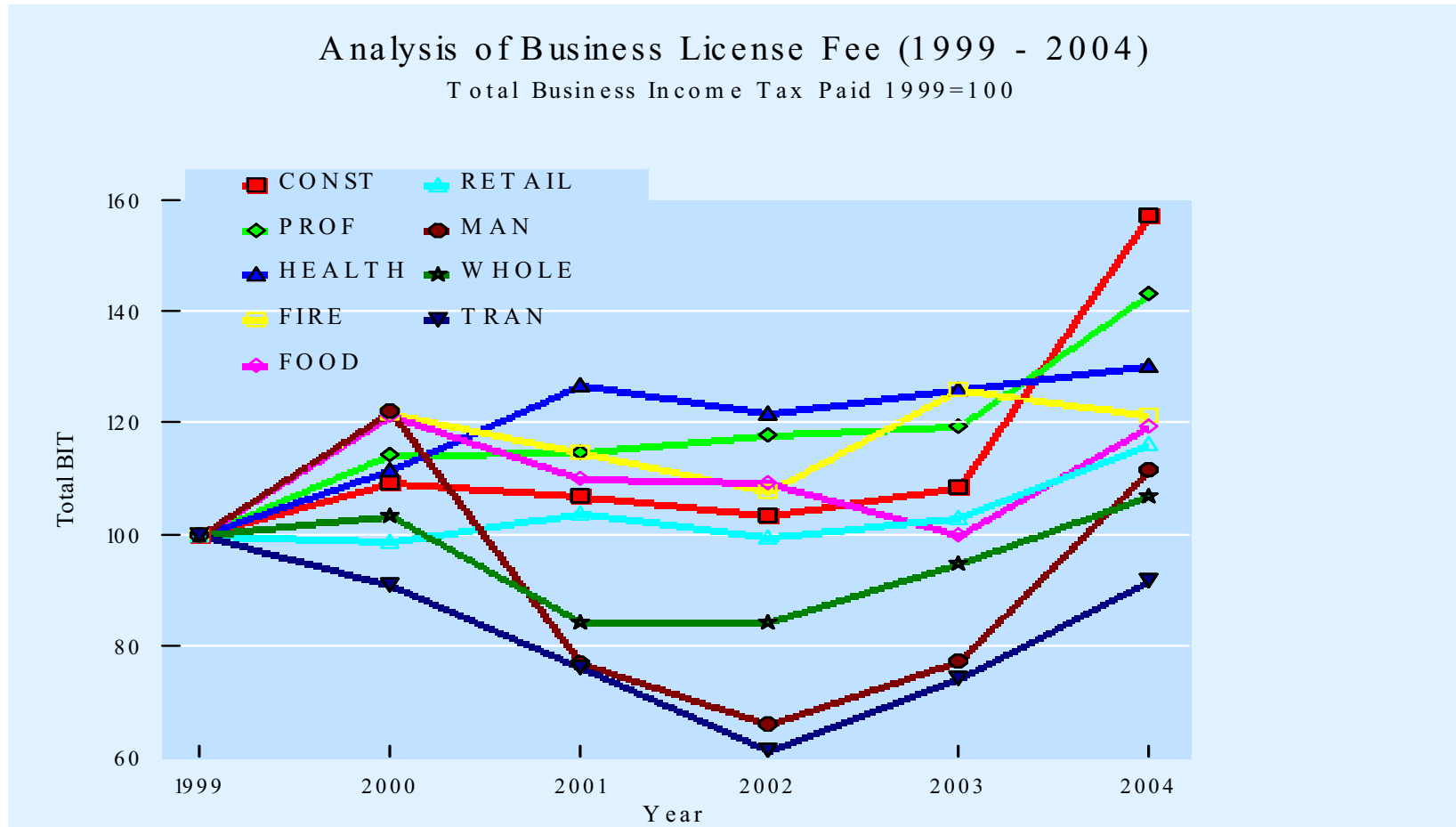
OR

If a business generates a net loss.

Number of Taxpayer Trends



Business Income Tax Paid Trends



*“The fairest tax is one
someone else pays.”*

-- anonymous

What is fair?

Two often mentioned
principles of tax fairness:

(1) Taxpayer with the ability to pay more tax should be taxed more

(2) Taxpayer that benefits most from services paid for by the tax should be taxed more

Source: United States Government Accountability Office: Understanding the Tax Reform Debate: Background, Criteria, & Questions:
Section 2: Criteria for a Good Tax System: Equity: Equity Principles:
September 2005: GAO-05-1009SP: <http://www.gao.gov/htext/d051009sp.html>

(1) Taxpayer with the ability to pay more tax should be taxed more

Total Gross Receipts

Total Gross Receipts	\$100 min fee	\$101 - \$500	\$501 - \$1,000	\$1001 - \$10,000	\$10,001 - \$50,000	over \$50,000
Unreported	4,679	2,797	566	1,009	98	12
\$0 - \$50,000	3,353	834	25	0	0	0
\$50,001 - \$200,000	4,357	3,006	365	157	0	0
\$200,001- \$1 million	2,731	2,045	740	999	14	0
\$1 million - \$10 million	1,529	860	448	1,041	169	15
\$10 million - \$20 million	209	91	50	171	31	14
over \$20 million	920	268	151	576	224	77

Breakdown of Minimum Fee Payers

Accounts with over \$1 million gross receipts	6,844
---	-------

Accounts with over \$1 million gross receipts that pay \$100 minimum fee	2,658
---	-------

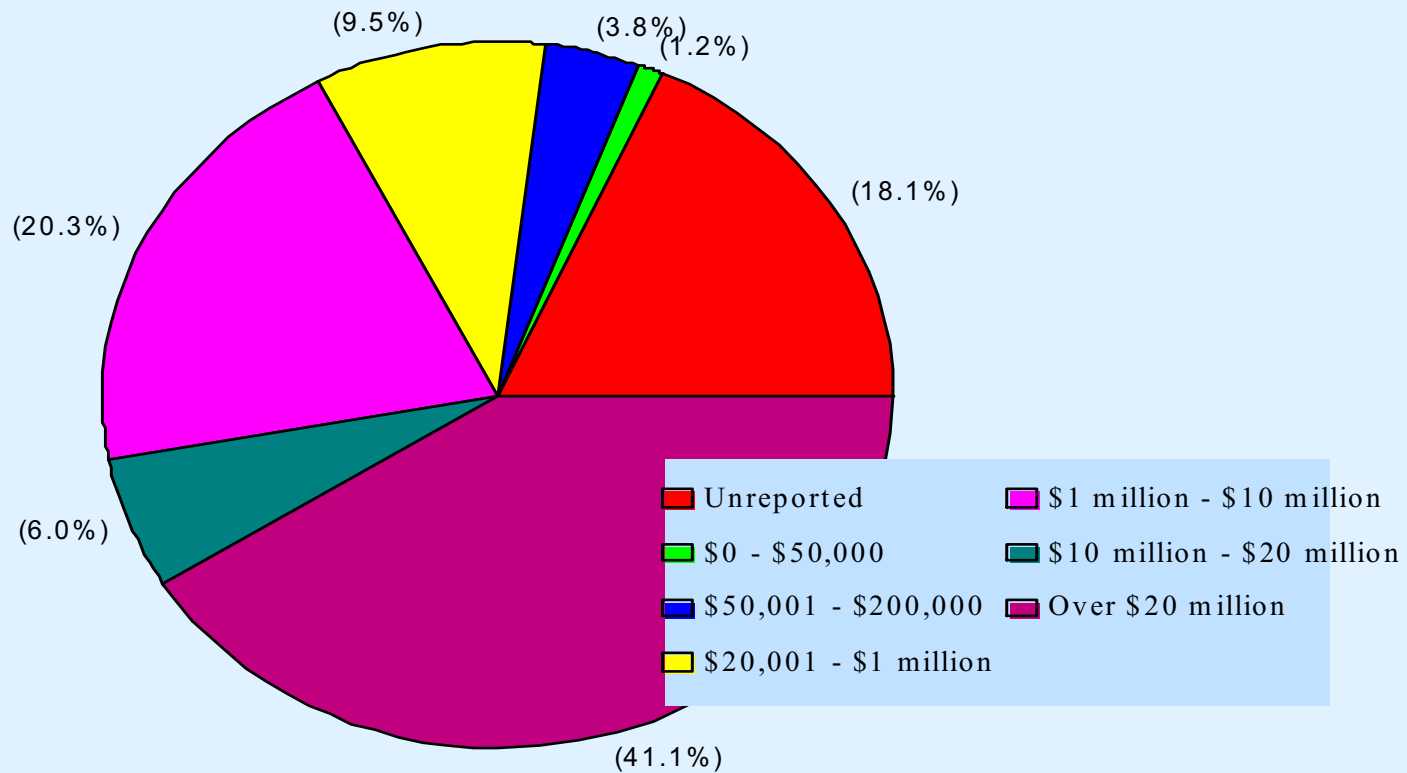
% who pay the minimum	39%
-----------------------	-----

Total Gross Receipts

Total Gross Receipts	\$100 min fee	\$101 - \$500	\$501 - \$1,000	\$1001 - \$10,000	\$10,001 - \$50,000	over \$50,000
Unreported	4,679	2,797	566	1,009	98	12
\$0 - \$50,000	3,353	834	25	0	0	0
\$50,001 - \$200,000	4,357	3,006	365	157	0	0
\$200,001- \$1 million	2,731	2,045	740	999	14	0
\$1 million - \$10 million	1,529	860	448	1,041	169	15
\$10 million - \$20 million	209	91	50	171	31	14
over \$20 million	920	268	151	576	224	77

Analysis of Total Gross Receipts

Business Income Tax Ranked by Gross Receipts
Tax Year 2004



(2) Taxpayer that benefits most from services paid for by the tax should be taxed more

Average BL Fee per Business Employee

Industry	Businesses	FT Portland Employees	Total BLF Paid	Average BLF per FTE	Rank
professional services	1,998	15,097	\$6,778,341	\$449	1
health	1,028	12,722	\$2,922,419	\$230	2
other sector/unknown	369	2,761	\$504,136	\$183	3
construction	1,360	10,375	\$1,326,865	\$128	4
wholesale	628	9,132	\$1,087,784	\$119	5
business, FIRE	1,263	28,159	\$3,310,020	\$118	6
other services	967	6,836	\$802,018	\$117	7
retail	1,153	21,548	\$2,407,400	\$112	8
manufacturing	697	22,882	\$1,901,039	\$83	9
food, lodging	661	7,345	\$560,108	\$76	10
transportation, warehousing	315	6,116	\$460,193	\$75	11
TOTAL	10,439	142,973	\$22,060,323	\$154	

Estimated using employee data collected during 2003 and matched to accounts filing for tax year 2004.

What is fair?

Options to bring about more tax fairness:

But, first, tax law at-a-glance:

ORS 317.056 Financial corporations; applicable taxes. Except as otherwise required by federal law, every financial corporation located within this state shall be subject to county, city, district, political subdivision and all other local taxes imposed on a nondiscriminatory basis throughout the jurisdiction of the taxing authority, at the same rates and in all respects in the same manner and to the same extent as are mercantile, manufacturing and business corporations,

Tax Law Continued:

Apportionment (for income taxes). Any taxpayer having income from business activity both within and without the tax jurisdiction shall determine the income to be apportioned to the jurisdiction by multiplying the total net income by a fraction, the numerator is the total “measurement” from business activity in the jurisdiction and the denominator is the total “measurement” from business activity everywhere.

Tax Law Continued:

Jurisdiction to Tax. There must be a rational relationship, sometimes called nexus, between the activity that is taxed and the taxing jurisdiction. This is a requirement of due process - which has two parts:

- whether the taxpayer avails itself of the “substantial privilege of carrying on business” in the taxing jurisdiction.
- Whether the taxing jurisdiction has sought to tax income that is “reasonably related to the taxpayer’s activities within the jurisdiction.”

City of Portland vs. Cook, 170 OR App 245, 252 (2000)

Tax Change Options:

1. Eliminate the tax
2. Reduce tax across the board
3. Increase gross receipts exemption
4. Increase owner's compensation deduction
5. Institute progressive or tiered minimum tax

1. Eliminate the Tax

- Return \$52,830,754.00 to BLF taxpayers to do so as they wish;
- A 15.832% cut required of the City General Fund

Eliminate Tax

Positive Impacts: Money in taxpayer pockets to reinvest in businesses etc.

Negative Impacts:

- Economist generally agree that taxes affect job growth but to a considerable lesser degree than the quality and cost of labor and other factors.
- In May 2002, ECONorthwest estimated that if the City of Portland and Multnomah County had completely eliminated their respective business income taxes in 1993 that the rate of job growth in Multnomah County (measured over all industrial sectors) would have only increased from 3.06% to 3.12% annually in subsequent years.
- ECONorthwest estimated the resulting job impacts at roughly 1,500 in the short-run (5 years) and up to 7,000 in the long-run (20 years) provided that government services important to businesses would remain unchanged after the tax cut.
- If the tax cut weakens essential public services some or all of the job impacts would disappear.

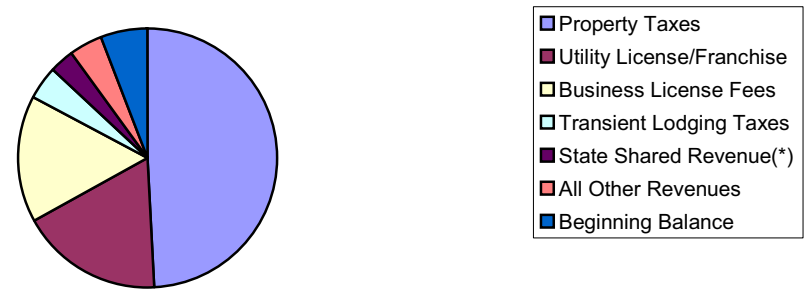
General Fund Resources

Discretionary General Fund Resources	Budgeted FY2006-07	Relative Percentage
Property Taxes	\$164,437,521	49.277%
Utility License/Franchise	\$59,143,137	17.723%
Business License Fees	\$52,830,754	15.832%
Transient Lodging Taxes	\$13,502,206	4.046%
State Shared Revenue(*)	\$10,199,408	3.056%
All Other Revenues	\$14,272,991	4.277%
Beginning Balance	\$19,314,473	5.788%
Fund Resources	\$333,700,490	100.000%

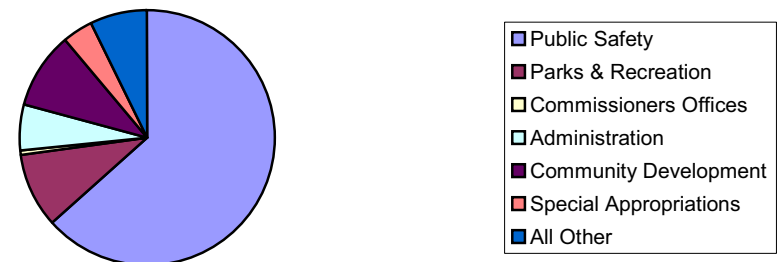
(*) Cigarette & liquor taxes.

Discretionary General Fund By Service Area	Budgeted FY2006-07	Relative Percentage
Public Safety	\$211,053,486	63.246%
Parks & Recreation	\$31,517,466	9.445%
Commissioners Offices	\$2,462,722	0.738%
Administration	18,850,676	5.649%
Community Development	32,634,320	9.780%
Special Appropriations	13,539,074	4.057%
All Other	23,642,746	7.085%
Adopted Budget	\$333,700,490	100.000%

General Fund Discretionary Resources

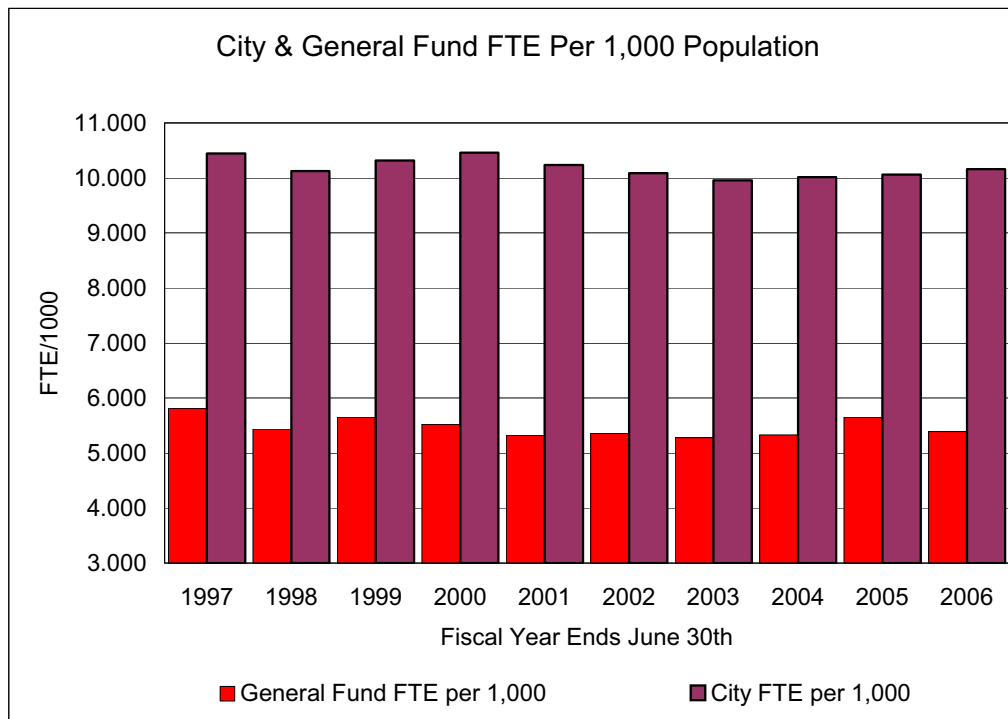


General Fund Discretionary Budgets



General Fund FTE per 1,000 of City Population

Fiscal Year	July 1 Population	General Fund FTE	FTE Per 1,000	City Cit FTE	y FTE 1,000
1997	503,000	2,924	5.813	5,254	10.445
1998	508,500	2,767	5.441	5,149	10.126
1999	509,610	2,881	5.653	5,257	10.316
2000	512,395	2,829	5.521	5,360	10.461
2001	531,600	2,830	5.324	5,441	10.235
2002	536,240	2,876	5.363	5,409	10.087
2003	538,180	2,843	5.282	5,359	9.958
2004	545,140	2,906	5.330	5,460	10.016
2005	550,560	3,114	5.656	5,539	10.061
2006	555,650	2,996	5.392	5,646	10.162



2. Reduce tax across the board

Current Rate is 2.2%

Rate	Total Gross Receipts	Accounts With Reduction	Average Reduction	Total Estimated Reduction
2.1%	Unreported	4,581	\$71	\$326,135
	\$0 - \$50,000	822	\$8	\$6,442
	\$50,001 - \$200,000	3,563	\$15	\$53,166
	\$200,001 - \$1 million	3,832	\$44	\$167,075
	over \$1 million	4,419	\$309	\$1,366,899
	TOTALS	17,217	\$112	\$1,919,717
Rate	Total Gross Receipts	Accounts With Reduction	Average Reduction	Total Estimated Reduction
2.0%	Unreported	4,581	\$142	\$651,921
	\$0 - \$50,000	822	\$15	\$12,604
	\$50,001 - \$200,000	3,563	\$30	\$105,861
	\$200,001 - \$1 million	3,832	\$87	\$333,914
	over \$1 million	4,419	\$619	\$2,733,714
	TOTALS	17,217	\$223	\$3,838,014
Rate	Total Gross Receipts	Accounts With Reduction	Average Reduction	Total Estimated Reduction
1.9%	Unreported	4,581	\$213	\$977,047
	\$0 - \$50,000	822	\$22	\$18,430
	\$50,001 - \$200,000	3,563	\$44	\$157,916
	\$200,001 - \$1 million	3,832	\$131	\$500,432
	over \$1 million	4,419	\$928	\$4,100,281
	TOTALS	17,217	\$334	\$5,754,106

Across the Board Rate Reduction Impacts

- Positive Impact: Any business who pays more than the minimum fee will pay less for their business license if the rate is reduced.
- Negative Impact: Portland's general fund will have less revenue to fund essential services and programs. Focuses business tax relief on large taxpayers.

3. Increase Gross Receipts Exemption

Current Exemption Level is \$25,000

Impacts of Changing Gross Receipts Exemption Level

Exemption Level	Accounts With Reduction	Average Reduction	Total Estimated Reduction
\$30,000	1,103	\$106	\$116,523
\$40,000	3,160	\$109	\$345,654
\$50,000	4,777	\$113	\$540,200
\$60,000	6,096	\$116	\$709,340

Exemption Increase Impacts

- Positive Impact: Small businesses, new businesses and part-time businesses who have gross receipts less than the new exemption level will no longer pay the business license fee (the annual filing requirement remains)
- Negative Impact: Portland's general fund will have less revenue to fund essential services and programs.

4. Increase Owner's Compensation Deduction

Current Compensation Deduction is \$60,000

Impacts of Changing Owner's Compensation Deductions

Deduction	Total Gross Receipts	Accounts With Reduction	Average Reduction	Total Estimated Reduction
\$100,000	Unreported	995	\$933	\$928,548
	\$0 - \$50,000	0	\$0	\$0
	\$50,001 - \$200,000	201	\$272	\$54,726
	\$200,001 - \$1 million	995	\$515	\$512,731
	over \$1 million	2,274	\$788	\$1,791,538
	TOTALS	4,465	\$736	\$3,287,543
Deduction	Total Gross Receipts	Accounts With Reduction	Average Reduction	Total Estimated Reduction
\$110,000	Unreported	995	\$1,086	\$1,081,012
	\$0 - \$50,000	0	\$0	\$0
	\$50,001 - \$200,000	201	\$289	\$58,087
	\$200,001 - \$1 million	995	\$594	\$590,840
	over \$1 million	2,277	\$952	\$2,168,366
	TOTALS	4,468	\$872	\$3,898,305
Deduction	Total Gross Receipts	Accounts With Reduction	Average Reduction	Total Estimated Reduction
\$125,000	Unreported	995	\$1,284	\$1,277,830
	\$0 - \$50,000	0	\$0	\$0
	\$50,001 - \$200,000	201	\$304	\$61,131
	\$200,001 - \$1 million	995	\$687	\$684,006
	over \$1 million	2,279	\$1,180	\$2,689,211
	TOTALS	4,470	\$1,054	\$4,712,178

Owner's Comp Increase Impacts

- Positive Impacts: Of the 4,400 businesses whose business license fee will decrease as a result of the Owner's Compensation deduction increase, **59%** are businesses that employ less than 50 employees. Also, review of business license data suggests that businesses that can take advantage of an Owner's Comp deduction increase are generally stable, profitable businesses that are likely to stay in Portland.
- Negative Impacts: Portland's general fund will have less revenue to fund essential services and programs.

5. Institute progressive or tiered minimum tax.

Create a tiered minimum fee structure that would range from \$100 to \$1,000. The business would pay the greater of the fee calculated by the net income method or the new minimum fee.

Increased Min Fee Impacts

- Positive Impacts: Portland's general fund will have more revenue to fund essential services and programs or offset other proposed changes.
- Negative Impacts: Businesses that have a large presence in Portland via payroll, but their sales (business activity) is outside Portland or they have operating losses could see an increase to their fee. If these businesses are paying the \$100 minimum now and the top minimum fee was set at \$1,000, the potential increase to them would be \$900.

Draft Proposal

1. Increase owner's compensation deduction to \$125,000
2. Raise Gross Receipts Exemption to \$50,000
3. Institute a progressive minimum tax based on:
 - a. Employees
 - b. Gross Revenues in Portland **OR**
 - c. Combination of both options

Implementation

1. Increase to Owners' compensation and Gross Receipts Exemption would be implemented over a five-year period.
2. Increase to minimum fee would be implement in TY2008.

NOTE: *An additional \$7 million of ongoing general fund revenue has been identified.*

What are the impacts?

Estimated Revenue Impacts of changing Owner's Comp from \$60,000 to \$125,000 and Gross Income Exemption from \$25,000 to \$50,000

Total Gross Receipts	Accounts	Positive Impact	Percent of Impact	Average Reduction	Baseline City Fees	Proposed City Fees	Estimated Reduction	Estimated Reduction
unknown	12,328	995	11%	\$1,284	\$7,953,641	\$6,675,811	\$1,277,830	16%
\$0 - \$50,000	5,962	4,777	52%	\$113	\$541,133	\$933	\$540,200	100%
\$50,001 - \$200,000	9,946	200	2%	\$305	\$1,811,728	\$1,750,709	\$61,019	3%
\$200,001 - \$million	7,978	995	11%	\$687	\$4,091,910	\$3,407,904	\$684,006	17%
over \$1million	8,195	2,279	25%	\$1,180	\$30,451,003	\$27,761,792	\$2,689,211	9%
TOTAL	44,409	9,246	100%	\$568	\$44,849,415	\$39,597,149	\$5,252,266	12%

Estimated Revenue Impacts of changing Owner's Comp from \$60,000 to \$125,000 and Gross Income Exemption from \$25,000 to \$50,000

Business Entity	Accounts	Positive Impact	Percent of Impact	Average Reduction	Baseline City Fees	Proposed City Fees	Estimated Reduction	Estimated Reduction
C-Corporation	7,870	1,475	16%	\$814	\$18,983,506	\$17,782,354	\$1,201,152	6%
S-Corporation	10,812	1,803	20%	\$490	\$10,458,006	\$9,574,461	\$883,545	8%
Sole Proprietorship	19,396	4,787	52%	\$247	\$4,732,373	\$3,549,327	\$1,183,046	25%
Partnership	2,026	430	5%	\$1,660	\$3,233,571	\$2,519,649	\$713,922	22%
Other (LP, LLP, LLC, etc)	4,305	751	8%	\$1,692	\$7,441,959	\$6,171,358	\$1,270,601	17%
TOTAL	44,409	9,246	100%	\$568	\$44,849,415	\$39,597,149	\$5,252,266	12%

Estimated Revenue Impacts of changing Owner's Comp from \$60,000 to \$125,000 and Gross Income Exemption from \$25,000 to \$50,000

Industry	Accounts	Positive Impact	Percent of Impact	Average Reduction	Baseline City Fees	Proposed City Fees	Estimated Reduction
business, FIRE	10,823	2,048	22%	\$490	\$11,004,980	\$10,001,392	\$1,003,588
construction	5,532	930	10%	\$285	\$3,133,473	\$2,868,061	\$265,412
food, lodging	2,066	195	2%	\$346	\$1,149,349	\$1,081,849	\$67,500
health	3,103	944	10%	\$950	\$4,103,102	\$3,206,508	\$896,594
manufacturing	2,008	346	4%	\$341	\$4,253,940	\$4,135,898	\$118,042
other sector/unknown	3,572	789	9%	\$141	\$1,107,115	\$995,658	\$111,457
other services	3,766	753	8%	\$215	\$1,870,862	\$1,709,129	\$161,733
professional services	6,479	1,774	19%	\$1,222	\$9,599,865	\$7,431,545	\$2,168,320
retail	3,848	590	6%	\$417	\$4,902,647	\$4,656,518	\$246,129
transportation, warehousing	1,351	465	5%	\$171	\$1,009,411	\$929,733	\$79,678
wholesale	1,861	412	4%	\$325	\$2,714,671	\$2,580,858	\$133,813
TOTAL	44,409	9,246	100%	\$568	\$44,849,415	\$39,597,149	\$5,252,266

Why this proposal?

Proposed Changes make the BLF a more equitable tax:

- Focuses tax cuts on most mobile, owner-controlled businesses: sole proprietors.
- Reduces tax burden on start-up firms.
- Better matches principles of a fair tax
 - \$20 million companies who pay the most versus who pay the minimum.
 - Professional Services firms tax burden will decrease

Proposed Changes make the BLF a more equitable tax:

- Balances tax cuts with impacts on basic services
- Increases help to businesses located in 85% of City not in a tax increment district
 - Grows the tax base

Feedback?