

Multnomah County Business Income Tax Changes

Fact Sheet

PROPOSAL: Update the Multnomah County Business Income Tax for the first time since 1987, effective tax year 2020.

- Increase the Business Income Tax rate from 1.45% to 2.00% to prevent further cuts to essential County services
- Double the exemption threshold from \$50,000 to \$100,000 to offer relief to more local small businesses

What is the Multnomah County Business Income Tax?

Since 1976, Multnomah County has required all businesses conducting revenue-generating activities within its boundaries to pay an income tax, unless otherwise exempt. It is a common source of revenue for local jurisdictions throughout the nation, including the City of Portland.

What does the Business Income Tax pay for?

The tax revenue is distributed through the County General Fund, and is used to fund essential government functions such as law enforcement, jails, elections, animal services, community corrections, social and health services. As the County has faced a looming structural deficit, it has made cuts to core government functions, as well as cuts to programs serving children, and to jail dorms. The County can no longer afford to continue making cuts.

What is the current Business Income Tax rate?

The current rate is 1.45% on business profits (net income). The estimated total tax revenue for fiscal year 2020 is \$96.5 million.

How is the Business Income Tax collected?

The City of Portland collects the tax on behalf of Multnomah County.

Do any other local jurisdictions levy a similar tax?

The City of Portland collects a business license tax of 2.6% (increased from 2.2% in 2017).

What percent of County services funded through the County General Fund rely on the Business Income Tax?

Roughly eighteen percent of Multnomah County's \$529 million ongoing General Fund revenue is generated from the Business Income Tax, which will yield approximately \$96.5 million in FY2020.¹

How many businesses does the County collect from?

There are currently 106,000 active business accounts, which includes 58,000 businesses that are exempt through the Gross Receipts Exemption.

What is the Gross Receipts Exemption?

Businesses that generate less than \$50,000 in total annual gross revenue are currently exempt from paying the Business Income Tax.

¹ This number excludes our beginning working capital (i.e., reserves and one-time-only resources) as well as excluding the Federally Qualified Health Center clinic revenues.

How many accounts currently qualify for the Gross Receipts Exemption?

In the latest tax year, approximately 58,000 accounts were exempt from paying the tax because they generated less than \$50,000 in gross income for the year. Increasing the exemption from \$50,000 to \$100,000 would exempt approximately **14,000** more small businesses, saving those businesses a collective total of **\$2.1 million annually**.

When was the Business Income Tax rate last adjusted?

The Business Income Tax has not been increased since 1987, except in 1998 when the tax was temporarily raised for one year from 1.45% to 1.95% to backfill education funding and to prevent teacher layoffs.

How would increasing the Business Income Tax rate from 1.45 percent to 2.00 percent affect businesses generating more than \$50,000 in gross income annually?

- Projected median annual Increase: **\$65.00**

Why is the County raising the Business Income Tax?

Since the Great Recession, the Portland Metro area has experienced a strong economic recovery. Portland is now the eighth wealthiest city in the nation, according to the Oregon state economist, up from 22nd place in 2005. This has driven up the cost of living for people across Multnomah County, and has put increasing pressure on employers to meet the financial needs of their employees, including the County. However, 1990s ballot initiatives limited the County's ability to fully benefit from local economic growth. The County's property tax revenues are limited by an individual property's assessed value growth being constitutionally capped at 3%. So, as the economy has put pressure on employers to meet higher labor costs, the County has not been able to rely on commensurate increases in property taxes. As a result, the County is facing an increasing structural deficit that will top out at \$21 million in FY2024.

Has the County considered alternative options?

Yes. The County has cut services for years to address the structural deficit including closing two jail dorms and making reductions in River Patrol, health clinics, eliminated positions in its HIV and hepatitis programs, cut shelter beds for runaway youth, and eliminated positions in animal services and land use planning. Recognizing that further cuts will have a permanent effect on essential services, the County explored alternative revenue options. However, introducing a new revenue mechanism would require prohibitively expensive new systems and infrastructure to collect fees or taxes.

Has the County taken measures to reduce the impact of PERS on its budget?

Yes. Multnomah County has taken more measures than most other jurisdictions to mitigate PERS increases. Over the last three years, the County has proactively established four PERS "side accounts." The purpose of these accounts is to provide some rate relief and smooth out the impact of rising PERS costs. They contain a total of \$100 million and continue to save the County money. The establishment of the side accounts allowed the County to participate in the State Employer Incentive Fund established by Senate Bill 1049, which provided for a 25% match for side accounts established after June 1, 2018. This action alone saved the County roughly \$8.6 million.

