

Proposal in Place to Simplify Portland's Business License

Prior to 1993, the Multnomah County Business Income Tax (MCBIT) and the City of Portland Business License (PBL) were administered by different agencies and although they were similar, there were quite a few differences between the programs. As a part of the 1993 Multnomah County/City of Portland Code Conformity Project, nearly every aspect of the laws and rules of the MCBIT and PBL programs were aligned to provide consistency and eliminate confusion. At that time, the City of Portland became the administrator of both programs.

The only significant aspect of the two programs that was not aligned was the time period that the MCBIT and PBL covered. The MCBIT is an "after-the-fact" tax similar to federal and Oregon income taxes. The PBL is currently a "paid-in-advance" license. It is based on the same income as the MCBIT, but it is always covering one tax year ahead of the tax year covered by the MCBIT.

This generally only creates confusion in the initial and final year of a business, but the confusion has been significant. On the first MCBIT/PBL tax return filed by the business, the MCBIT is calculated on the taxable income of the preceding tax year. The PBL is calculated on the same income, but the PBL is doubled on the first return to pay for two years (in order to make it a "pay-in-advance" license). On the final return filed, the MCBIT is paid on the taxable income of the final year of business; however, the PBL is not calculated on the final return.

This difference can create some confusing and potentially unfair outcomes. Simply determining whether a return should be considered a first or final return can be controversial. There are also situations where taxpayers have significant levels of income in either their first or final year. In these cases, there can be huge differences between the taxable income earned in the City and the taxable income on which they base their PBL.

There is currently a proposal to convert the PBL to a full after-the-fact license tax. This proposal would result in substantially complete MCBIT/PBL conformity. The effective date of this proposal is tax year 2008 (for tax years that begin on or after 1/1/2008) and the impacts of this change are expected to be as follows:

- City and County filings for all years would be the same.
- No \$100 payment would be required when starting up a business. The only requirement would be that a new business register with the City within 60 days of starting business.
- The City would issue "certificates of compliance" instead of licenses.
- Real estate brokers would no longer be exempt from the PBL. (They have always been subject to the MCBIT.)

In order to fairly treat existing businesses that have already "paid-in-advance," each business would receive a refundable credit equal to the "doubled" City amount paid on their initial year's return. This credit would be claimed at 20% of the full amount in each

year over the first five years after the change (tax year 2008 through 2012). If a business ceases before the five years have elapsed, any credit balance would be claimed on the final year's return.

Moving from a license "paid-in-advance" to an "after-the-fact" tax creates positive outcomes for both business and the City in the following ways:

- Reduces administrative time and costs of the City, businesses and tax preparers through simplification of the filing requirements. The after-the-fact tax concept is understood and accepted since the concept is used at the federal, Oregon and Multnomah County level.
- Lessens burden for new businesses by decreasing their initial tax bill.
- Eliminates what many businesses perceive as an unfair tax when there is significant income in the first year.
- Prevents significant income in the final year of a business from escaping City license taxes.

In summary, this proposal:

- Is neither a new tax nor a tax rate increase.
- Only changes the first and last year reporting and liability.
- Would eliminate the PBL exemption currently available to real estate brokers.
- Would provide a refundable credit over the next five years to existing businesses.