

Tutorial on City/County Business Registration System (formerly Business License System) and applicable fees for home-based businesses.

Most remember the Portland business license and fee and the days when Multnomah County collected a county business income tax. That system was debated and found to be misleading, unfair over time, and needing simplification to improve collection efficiency. This tutorial brings businesses up to date on the current system of City/County taxation. It has been prepared by the Sellwood Westmoreland Business Alliance, and has been reviewed for accuracy by the Revenue Bureau, City of Portland.

This tutorial covers only for-profit businesses selling goods and services in Portland and owners of revenue producing business property in the city of Portland. For home-based businesses, see the last question below.

What became of the license fee?

The fee was really a business income tax. Multnomah County already had such a tax. The name was changed for clarity, and now Portland has 2.2% income tax, and Multnomah County has a 1.45% income tax. (Combined rate of 3.65%)

If there are no licenses, what replaced them?

The City now requires that all businesses register. Upon registration, you will be able to print out (Available April 15th, 2010) a City of Portland Certificate of Compliance by going the revenue Bureaus's Business website. Thereafter, each business is responsible for filing either a City/County tax return (Combined Tax Return) or an annual exemption request (Form AER).

Who collects this tax?

For efficiency, the City now collects both taxes using one form with space to calculate each amount due.

Are any businesses then licensed?

Yes, but these are stipulated by State of Oregon statutes. The City has nothing to do with them. Examples would be for liquor stores, plumbers, real estate brokers and cosmetologists.

Does every business have to pay income tax?

No, there is an exception for small businesses. If your gross income from all sources (including income earned outside Portland and Multnomah

County) for the year is under \$50,000, you can file a Form AER (revised 12/10/2008) and are exempt. Federal tax returns will be required as backup.

For those grossing over \$50,000, is there anything unique about how the tax is calculated?

Yes. Because the owners of a business can pay themselves in several ways and in any amount they decide, and because the City and County have no personal income tax, there is a limit on owner compensation deductible for calculating taxes due. This amount has been modified recently, and is currently 75% of total income up to \$84,000. This prevents a business from paying owners to the point where the business has no net income and would pay no local tax.

What about multiple owners?

This depends on your business legal structure. For example, all General Partners in a partnership can take the deduction, but limited partners may only claim actual compensation. For Corporations, compensation limits apply to controlling stockholders (those holding more than 5% of the corporation stock). The rules are defined on the instructions, and are well known to tax preparers.

When must I register?

You have 60 days after the initiation of business activity to register. If you are unaware of this requirement, register as soon as possible.

What if I do not register?

The City has a data-mining section that looks for unregistered businesses. When found, you will generally be required to file for all years that you have done business in Portland for the last 7 years (limited to this by Bureau policy). If you cooperate with the City, you will only owe back taxes plus interest. If you do not cooperate, fines also apply. *This event could come at a time when the business is vulnerable and unable to pay back sums owed.*

What if I am a landlord and own commercial property from which I obtain rent?

You are defined as a business, and rent income is business income. The same tax also applies to capital gains should you sell the property for a gain.

What about the business that I do outside the City and County?

Apportionment is certainly a possibility. Questions then come up about where the order is accepted, the contract made, the services provided, and the place from where goods are shipped. You and your accountant must be prepared to defend apportionment decisions.

Didn't I used to pay the license fee in advance?

Yes, but now everything is based on your filing by the 15th day of the 4th month after the end of your fiscal year-end. (April 15th for calendar year filers.

If I use a professional to prepare my taxes, will he take care of this automatically?

Generally, tax professionals will prepare the City/County returns at the same time they prepare your Federal and State tax returns, but you should confirm this with them.

If I am a home-based business, am I liable for any additional fees?

Maybe. The City enforces rules regarding such businesses. If you are a business where no employees or customers/clients come to your home, you are a Type A home occupation, and there are no fees. If you have either 1-8 customers a day come to your home or you have one or more non-resident employees or non-resident business owners come to your property, you are a Type B home occupation. A \$123 bi-annual permit is required, and certain regulations apply.

If you have more than 8 customers a day come to your house, the City feels that you should be conducting your business in a commercial zone.

This permit system is administered by the Bureau of Development Services (not the Revenue Bureau). Unlike the Revenue Bureau, nobody sends time looking for those not in compliance. It is a "complaint driven" system. Therefore, Type B home occupations would be advised not to irritate their neighbors and have a complaint filed against them.