

Business Tax Administrative Rule 600.94-1A

600.94-1A – Treatment of Currently Taxed Pass-Through Income (LIC-6.07)

Business license tax and business income tax laws require that a tax be paid by a Partnership or S corporation doing business in the City and/or County. This tax is measured by the net income of the entity at the entity level.

To avoid potential double taxation of partnership and S corporation income (loss) as it flows through to a partner or shareholder who is also liable to pay a tax for business activities separate from the flow-through activities, the partner or shareholder will reverse all income (loss) items and attributes that passed through from a currently taxed entity.

If the partnership or S Corporation is not subject to the City of Portland Business License Tax and/or the Multnomah County Business Income Tax, the recipient entity is not entitled to reverse the net income (loss) pass-through items.

Example 1: Ace Tools, a partnership, is located in Portland and pays business taxes on incomes earned in Portland and Multnomah County. Partner B and Partner C have no other business activity or business incomes in Portland that would require either to pay business taxes in addition to business taxes paid by the partnership. Partner A owns a commercial building that is leased to Ace Tools for \$5,000 per month. Partner A must pay business taxes for Portland business incomes that are not incomes reported by the Ace Tools partnership.

The partnership had net income of \$100,000. Partner A received 75% of the partnership profit.

Partner A had net income of \$47,000 including a loss of (\$28,000) in net rental income from his commercial building. In determining the income for Portland, Partner A will exclude the \$75,000 passed through from the partnership and will not include the distributive share of partnership gross income in either the numerator or denominator of the apportionment factor. Partner A would report a loss of (\$28,000) and gross income of \$60,000.

Example 2: Bellevue Corporation, a taxpayer domiciled in Multnomah County, is a partner in Costello Partnership in addition to other business activities in Multnomah County. Costello Partnership conducts all its income producing activity in Washington County. Since Costello Partnership is not required to file or pay the County business income tax, Bellevue will include the pass-through net income from Costello in reported net income, and will include the pass-through gross income from Costello in the denominator of the apportionment formula for business tax purposes.

Note: This rule sunsets 12/31/2022 and does not apply to tax years beginning on or after 1/1/2023. See 601.23-1 (LIC 6.26) for later tax years.

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Thomas Lannom

Date

Director, Revenue Division

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