

Business Tax Administrative Rule 601.23-1

601.23-1— Treatment of Currently Taxed Pass-Through Income (LIC-6.26)

City of Portland Business License Tax and Multnomah County Business Income Tax Code 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 or 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 or 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 or 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 income 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 \$10,000 per month. Partner A must pay business taxes for Portland and Multnomah County business income that is not income 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 a loss of (\$28,000) in net rental income from their 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 sales in either the numerator or denominator of the sales factor. Partner A would report a loss of (\$28,000) and gross income of \$120,000.

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 sales from Costello in the denominator of the sales factor for business tax purposes.

Note: Applicable for tax years beginning on or after 1/1/2023.

XX-XX-2023

Thomas Lannom

Date

Director, Revenue Division

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