



TAX FOUNDATION

Portland's Weirdly High Taxes

By Jared Walczak



Portland's Weirdly High Taxes

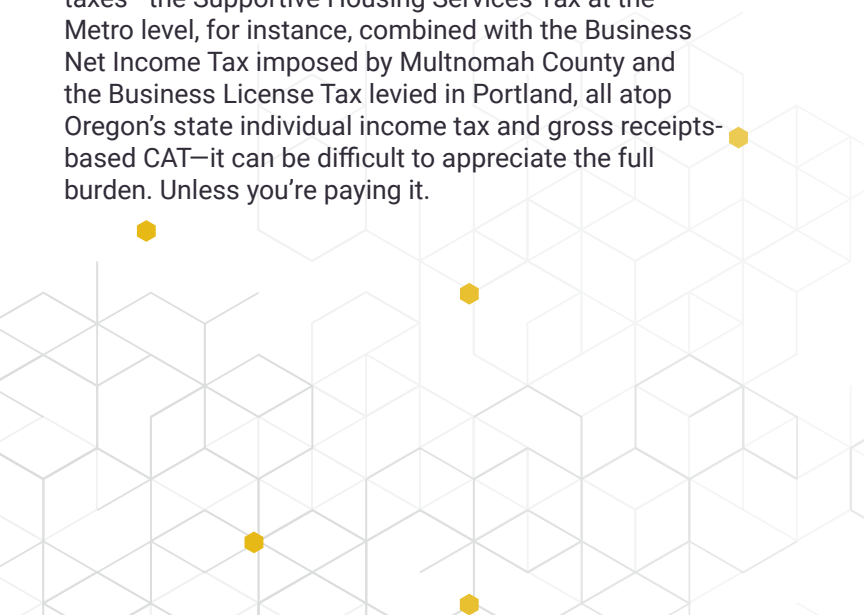
Jared Walczak

Introduction

It's no secret that the Portland area has high taxes. The region is known for the world's largest bookstore, its breweries, a vibrant art scene, and the old PDX airport carpet, but decidedly not for its commitment to tax competitiveness.

Portland residents face some of the highest taxes in the country. City, county, regional, and state taxes on individual and both net and gross business income combine to create a crushing tax wedge, yielding some of the highest marginal rates on wage income nationwide. And after factoring in the average net income effect of the Oregon Corporate Activity Tax (CAT), Portland easily has the nation's highest marginal effective rates on both corporate and pass-through business income.

Because this tax burden is spread across so many taxes—the Supportive Housing Services Tax at the Metro level, for instance, combined with the Business Net Income Tax imposed by Multnomah County and the Business License Tax levied in Portland, all atop Oregon's state individual income tax and gross receipts-based CAT—it can be difficult to appreciate the full burden. Unless you're paying it.



Workers, business owners, and investors in Portland, Multnomah County, and the Metro region all experience these considerable burdens. Portland has the highest business taxes—on small and large businesses, and pass-throughs and corporations alike—and the second highest top marginal rate on wage income in the country.

Table 1. Income Taxes in Portland Are among the Nation’s Highest on All Categories of Income

Top Marginal Rates for the Nation’s Highest-Taxing Jurisdictions, the National Median, and Select Others

	Wage Income and Sole Proprietorships	S Corporations, Partnership, and LLCs	C Corporations
Portland, OR	14.7737% (2nd)	21.62% (1st)	20.92% (1st)
New York City, NY	14.776%	14.78%	16.1%
San Francisco, CA	14.4%	13.30%	18.34%
California (rest of state)	14.4%	14.40%	8.84%
Newark, NJ	11.75%	11.75%	11.5%
Median State	4.95%	4.95%	6.5%
Florida	0%	0%	5.5%
Texas	0%	5.36%	5.36%

Note: Top marginal rates are an aggregate of all income-based taxes on each category of income imposed at the state and local levels. Oregon and Texas business tax figures include the states’ gross receipts taxes, converted to income taxes on an average rate of return.

Source: Tax Foundation calculations.

This short publication explains the components of Metro region taxes on income, demonstrates how they layer for different classes of income, and compares these combined rates on an apples-to-apples basis with the combined rates in other cities and states.

Breaking Down the Metro Region's Income Taxes

Metro-area individuals and businesses face a dizzying array of taxes on income—nine in all, not counting a Clean Energy Surcharge described later. While no category of income has all nine taxes imposed on it, every taxpayer faces several layers.

Table 2. Nine Different State and Local Income-Based Taxes Are Levied in the Metro Region

Tax	Top Rate	Geography	Tax Base			
			Personal Income		Business Income	
			Wage	Non-Wage	Pass-Through	Corp.
Personal Income	9.9%	State	✓	✓	✓	
Corporate Income	7.6%	State				✓
Corporate Activity	0.57% GRT*	State			✓	✓
Preschool for All	3.0%	Multnomah	✓	✓	✓	
Business License [†]	2.6%	Portland			✓	✓
Business Income [†]	2.0%	Multnomah			✓	✓
Supportive Housing Services	1.0%	Metro	✓	✓	✓	✓
TriMet Transit	0.7737%	Tri-County	✓			
Oregon Transit	0.1%	State	✓			

* The Corporate Activity Tax is on a modified gross receipts base. On a business with an ordinary 7 percent profit margin, it is the equivalent of a 6.72 percent net income tax.

† The Business License and Business Income Taxes include deductions for pass-through income of local residents, designed to avoid double taxation of income separately taxed under the Preschool for All and Supportive Housing Services Taxes. Sources: Oregon state and municipal governments; Tax Foundation research.

Let's briefly break each of these taxes down, beginning at the state level and becoming progressively more local.

Personal Income Tax

Application: Wage income, investment income, pass-through business income

Geography: Statewide

Top Rate: 9.9 percent

With a top rate of 9.9 percent, Oregon's state tax on individual and pass-through business income is the nation's sixth highest, after California (13.3 percent), Hawaii (11.0 percent), New York (10.9 percent), New Jersey (10.75 percent), and the District of Columbia (10.75 percent). But this understates the tax's impact, as the top rate of Oregon's income tax kicks in at \$125,000 for single filers, whereas the top rates in California, New Jersey, and Washington, D.C., are on marginal income above \$1 million, and New York's top rate doesn't hit until \$25 million. Only Hawaii, with a \$200,000 top bracket, is in the ballpark of Oregon's.

Table 3. Nation's Highest Marginal Tax Rates on Wage Income at \$125,000

Jurisdiction	Marginal Rate
Portland, OR	14.7737%
California	10.4%
New York City, NY	10.126%
Oregon (Non-Metro)	10.0%
District of Columbia	8.5%
Hawaii	8.25%
Minnesota	7.85%
Vermont	7.6%

Sources: State statutes; state and local revenue departments; Tax Foundation research.

At \$125,000, where Oregon's top rate kicks in, the marginal rate of 9.9 percent is the nation's highest (excluding additional levies in Oregon and elsewhere), edging out California's 9.3 percent, the District of Columbia's 8.5 percent, and Hawaii's 8.25 percent, but the gulf widens when other taxes on income, levied at the state and local levels, are taken into account. Forty-four states have marginal rates less than *half* Portland's at that income level.¹

Corporate Income Tax

Application: C corporation net income

Geography: Statewide

Top Rate: 7.6 percent

Imposed on the Oregon-apportioned net income of C corporations, Oregon's 7.6 percent corporate income tax is high, but far from the nation's highest. It currently ranks 14th highest nationwide, against a national average of 5.85 percent and a median rate of 6.4 percent. But, as discussed below, Oregon is one of only two states (with Delaware) to impose both a corporate income tax *and* a gross receipts tax on business income.

Corporate Activity Tax

Application: Gross income from all commercial activity in excess of \$1 million

Geography: Statewide

Rate: 0.57 percent of gross receipts

Oregon's Corporate Activity Tax is a gross receipts tax, meaning that it is imposed on businesses' gross rather than net income. This has two significant effects. One, it leads to higher marginal rates on the profits of low-margin businesses than high-margin ones. Two, it "pyramids," since the tax is imposed

¹ The states with marginal rates at least half of what Portland residents face are shown in Table 3: California, New York, Hawaii, Minnesota, and Vermont, as well as the District of Columbia. New York's statewide marginal rate of 6.25 percent is less than half what Portlanders face, but New York City's top local rate of 3.876 percent along with a smattering of other local taxes place the average marginal state and local rate at \$125,000 in New York around 7.9 percent.

at every level of the production chain for a good or service. Most states have repealed these outdated taxes, but Oregon bucked that trend, implementing its gross receipts tax in 2020.

The CAT is imposed at a rate of 0.57 percent on gross revenue in excess of \$1 million, with a subtraction for 35 percent of either labor costs or the cost of goods sold, but not both. At first glance, 0.57 percent may not sound like much, but the fact that it's on gross rather than net revenue, and that it pyramids, actually makes it an extremely aggressive tax.

Consider this, to put that 0.57 percent rate into context: years ago, Ohio replaced its corporate income tax, a corporate franchise tax, and its property tax on machinery and equipment—all three—with a gross receipts tax at a rate of 0.26 percent.

Or convert that rate into the equivalent of a tax on net income. The calculated effective rate will vary from business to business, but if we assume a profit margin of 7 percent (about the average for small businesses) and an equal split in the cost of labor and goods, the CAT is the equivalent of a 6.72 percent income tax. And that's on top of the other statewide taxes on this business income, the personal income tax (up to 9.9 percent) for pass-through businesses or the corporate income tax (7.6 percent) for C corporations.

Of course, the smallest of Oregon businesses are exempt from the CAT, other than a \$250 minimum payment, but most business activity—and most employment—in Oregon comes from businesses with well over \$1 million in gross revenue. In all aggregate rate calculations that include the CAT in this publication, we will use the estimate of a 6.72 percent net income equivalent.

Oregon Transit Tax

Application: Wage income

Geography: Statewide

Rate: 0.1 percent of wages

Oregon requires employers to withhold an additional 0.1 percent from employee wages to help fund state transit projects. This applies to wage income, not business or investment income. Such payroll taxes for anything other than unemployment insurance (UI) are rare. At the state level, other than in Oregon, non-UI payroll taxes are only levied in California, Massachusetts, and Washington.²

TriMet Transit Tax

Application: Wage income

Geography: Clackamas, Multnomah, and Washington counties

Rate: 0.7737 percent of wages

In addition to the statewide transit tax, similar taxes are levied in six transit districts, including the TriMet district, which covers all three counties included in the Metro regional government. The current TriMet transit tax rate is 0.7737 percent.

Supportive Housing Services Tax

Application: Personal income, pass-through business income, and corporate income

Geography: Metro

Rate: 1 percent

The Supportive Housing Services Tax is imposed by Metro, the country's only elected regional government. Levied at a rate of 1 percent, it applies to both individual and corporate income, meaning that it is paid by individual earners, pass-through business owners, and C corporations alike, albeit with different thresholds.

² There is also a somewhat similar tax in Nevada, but it is levied at the entity level, has a per-employee cap, and is in lieu of an individual income tax.

The tax is levied on personal taxable income above \$125,000 (or \$200,000 for joint filers), and on all business net income for businesses with gross receipts (not net income) above \$5 million.

The tax does not apply separately to the net income of sole proprietorships as entities, though sole proprietors may still be subject to the tax on the personal income arising from their sole proprietorship. The tax on business net income does apply at the entity level even when owners reside outside the Metro region, and thus raises the tax cost of investing in regional businesses.³

Preschool for All Personal Income Tax

Application: Personal income, pass-through business income

Geography: Multnomah County

Top Rate: 3 percent

Multnomah County's Preschool for All Personal Income Tax is a two-bracket graduated rate tax with a large zero bracket that exempts many earners. Income above \$125,000 is taxed at 1.5 percent and income above \$250,000 is taxed at 3 percent. Both rates will increase by 0.8 percentage points, to 2.3 and 3.8 percent, respectively, in 2026. Joint filers face broader, but not doubled, bracket widths of \$200,000 and \$400,000. Because these are not double the single filer bracket widths, the tax includes a marriage penalty.⁴

The tax applies to individual income, including income flowing through to the owners of pass-through businesses, but is not imposed at the entity level.

3 Metro Code 7.07, <https://www.oregonmetro.gov/sites/default/files/2023/10/05/MetroCode-7-07-Business-Income-Tax-20230926.pdf>.

4 Multnomah County, "Preschool For All Personal Income Tax FAQ," Mar. 19, 2021, <https://multco-web7-psh-files-usw2.s3-us-west-2.amazonaws.com/s3fs-public/Preschool%20For%20All%20Personal%20Income%20FAQ.pdf>.

Business Income Tax

Application: Pass-through business income, corporate income

Geography: Multnomah County

Rate: 2 percent of net business income

Multnomah County's business income tax is on net income of partnerships, S corporations, and C corporations, and is levied at a rate of 2 percent on net business income in the county. There is a deduction for income taxed on the local personal income tax returns of Multnomah residents to avoid double taxation where the same income is taxed at the entity level by the Business Income Tax and again when passed through to an owner and investor and taxed under the Multnomah Preschool for All Tax or Portland Supportive Housing Services Tax. The deduction also applies when the same income flows through multiple partnerships or LLCs with the same ownership.⁵ However, the tax increases costs for businesses on income that does not flow through to local residents' personal income, which makes Metro-based businesses particularly unattractive for investors elsewhere.

Business License Tax

Application: Pass-through business income, corporate income

Geography: Portland

Rate: 2.6 percent of net business income

The City of Portland's business license tax operates similarly to Multnomah County's business income tax, likewise levied on the net income of partnerships, S corporations, and C corporations. For Portland businesses, it is in addition to the county's tax, and is imposed at a higher rate of 2.6 percent. As with the business income tax, there is an adjustment to avoid double taxation of the same business income under the tax.

⁵ Portland Code, LIC-6.26, <https://www.portland.gov/policies/licensing-and-income-taxes/income/lic-626-treatment-currently-taxed-pass-through-income>.

How Oregon's Many Income Taxes Stack

High-income earners in Portland face a combined top marginal rate of almost 14.78 percent on their wage income and 13.9 percent on investment and other unearned income not derived from an ownership stake in a pass-through business. Including federal taxes, the combined marginal rates reach nearly 52 and 38 percent, respectively.

Small businesses are very aggressively taxed in Portland. While not all small businesses are pass-through entities, and not all pass-throughs are small, the vast majority of small businesses are organized as S corporations, partnerships, LLCs, and sole proprietorships. Regional and local business taxes exempt sole proprietorships and single-member LLCs, but all other pass-through businesses are subject to six layers of tax, three at the entity level and three when income flows through to owners, yielding an astonishing combined top marginal rate of 20.62 percent. Add the federal individual income tax and the combined top rate is nearly 58 percent.

Corporate income is apportioned by formula under the federal and state income tax, and municipal taxes on business income also have apportionment and allocation rules. But to the extent that corporate net income is associated with the relevant jurisdictions, they face a combined top rate of 19.92 percent in Portland, and of 40.92 percent taking federal taxes into account. Worldwide, the average combined corporate income tax rate is 23.37 percent, and 23.57 percent among OECD countries.⁶

For Portland residents, all of these taxes come together. Multnomah County taxpayers outside the Portland city limits are not subject to the Business License Tax, and Metro region taxpayers outside Multnomah County are additionally not subject to the Preschool for All Tax or the Business Income Tax.

6 Cristina Enache, "Corporate Tax Rates Around the World, 2022," Tax Foundation, Dec. 13, 2022, <https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2022>.

Table 4. Portland's Taxes Stack Up Quickly

Tax	Pass-Through Income	Wage Income	Capital Gains	Corp. Income
Personal Income	9.9%	9.9%	9.9%	n.a.
Corporate Income	n.a.	n.a.	n.a.	7.6%
Preschool for All	3.0%	3.0%	3.0%	n.a.
Corporate Activity	6.72%	n.a.	n.a.	6.72%
Business License	2.6%	n.a.	n.a.	2.6%
Business Income	2.0%	n.a.	n.a.	2.0%
Supportive Housing Services	1.0%	1.0%	1.0%	1.0%
Clean Energy Surcharge	1.0%	n.a.	n.a.	1.0%
TriMet Transit	n.a.	0.7737%	n.a.	n.a.
Oregon Transit	n.a.	0.1%	n.a.	n.a.
Combined Top Marginal Rate	20.62%	14.77%	13.90%	20.92%
... plus Federal Taxes	57.62%	51.77%	37.70%	41.92%

Source: State and local revenue departments and municipal codes; Tax Foundation research and calculations.

It is some comfort, at least, that Oregon does not impose a general sales tax, and that, statewide, property tax burdens are fairly typical. But Portland residents don't get let off the hook here, either. According to one study, Portland has the nation's fifth-highest effective property rate on median-valued homes (among major cities),⁷ largely due to a property tax limitation regime that provides relief tied to the age of the home, shifting tax burdens to newer construction.⁸ The city also ranks 13th highest for commercial property taxes.⁹

Finally, Portland imposes a 1 percent Clean Energy Surcharge that, while ostensibly levied exclusively on large retailers, appears to capture additional businesses as well. It applies to businesses with more than \$1 billion in worldwide receipts and more than \$500,000 in Portland revenue. While the tax therefore only applies to large national and multinational busi-

7 Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, "50-State Property Tax Comparisons Study For Taxes Paid in 2022," August 2023, <https://go.lincolninst.edu/50-state-property-tax-comparison-for-2022.pdf>.

8 Oregon Department of Revenue, "A Brief History of Property Taxation," June 2009, <https://www.oregon.gov/DOR/programs/gov-research/Documents/303-405-1.pdf>.

9 Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, "50-State Property Tax Comparisons Study For Taxes Paid in 2022."

nesses, it further cuts into the margins of many businesses, including large supermarket chains, which operate on margins of about 2 percent and are thus highly sensitive to such additional costs. To the extent that the surcharge applies to much of the competition, they may be able to pass its burden along to consumers in the form of higher prices. In a state without a sales tax, it operates somewhat like an embedded sales tax for major retailers. This tax is not included in our calculations.

Conclusion



Portland residents may want to “Keep Portland Weird,” but the city’s most unrepresentative feature need not be its tax burdens. At least for now, Portland residents face some of the country’s highest taxes on just about every class of income. In an era of dramatically increased mobility for individuals and businesses alike, that’s not a recipe for success.



About the Tax Foundation

The Tax Foundation is the nation's leading tax policy research organization. Since 1937, our research, analysis, and experts have informed smarter tax policy at the federal, state, and global levels. Our Center for State Tax Policy uses research to foster competition among the states and advises policymakers on how to improve their tax systems.

Connect:

-  facebook.com/taxfoundation
-  [@taxfoundation](https://twitter.com/taxfoundation)
-  [tax.foundation](https://instagram.com/tax.foundation)
-  linkedin.com/company/tax-foundation
-  taxfoundation.org/subscribe



Tax Foundation
1325 G Street, NW, Suite 950
Washington, DC 20005

202.464.6200 | taxfoundation.org

