



Portland Small Business Owners Facing Weirdly High New Taxes – and It Could Get Worse

April 8, 2021

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<https://taxfoundation.org/portland-small-business-tax-rates-biden/>

Newly implemented county and regional taxes yield state and local top [marginal tax rates](#) in excess of 26 percent for many Portland small businesses, and if all of [President Biden’s tax proposals](#) were adopted, those owners could face all-in marginal rates of more than 80 percent, far and away the highest in the country going back decades.

Most of Portland is in Multnomah County, where voters approved a [new income tax](#) on high earners, with a top rate of 3 percent on income above \$250,000, intended to fund preschool programs. The tax went into effect on January 1. The entire metro region also saw the imposition of a [new 1 percent income tax](#) to fund supportive housing services, which would fall on individual income above \$125,000 (including small business owners’ salary income) and those business owners’ net business income at higher thresholds.

This 4 percentage-point local tax increase comes atop a long list of existing taxes on small businesses at the state and local level: the state’s individual income tax, a [gross receipts tax](#) on business activity (including small businesses), both state and regional transit taxes, and county- and city-level taxes on business income, including partnerships and sole proprietorships. They add up—quickly.

The gross receipts tax, called the Corporate Activity Tax (CAT), is imposed at a 0.57 percent rate on almost all gross business income, though it includes [limited deductions](#) for certain business expenses. To compare this tax with those imposed on net income (things like wages and profits), we must make certain assumptions about a business’s profit margins and how much it can deduct.

Nationwide, the average profit margin for a small business is around 7 percent, and the taxpayer is allowed a subtraction worth 35 percent of the greater of their labor costs or the cost of goods sold. If we assume that those costs are split evenly, we yield a 6.82 percent effective rate for a “typical” small business. We will use that in our analysis, but it is important to note

that the rates faced by different industries and businesses will vary widely—one of the criticisms of gross receipts taxes.

Our typical small business, therefore, would face a marginal rate of 26.19 percent (including the calculated CAT rate) on its activities in Multnomah County, broken down as follows.

Tax	Tax Base	Level	Rate
Individual Income Tax	Individual Income	State	9.90%
Corporate Activity Tax	Business Gross Receipts*	State	6.82%
Oregon Transit Tax	Wages	State	0.10%
Supportive Housing Services Tax	Business and Individual Income	Regional	1.00%
TriMet Transit Tax	Wages	Regional	0.7737%
Preschool For All Tax	Individual Income	County	3.00%
Business Income Tax	Business Net Income	County	2.00%
Business License Tax	Business Net Income	City	2.60%
Total State and Local Tax			26.19%
<small>Note: * Applied at a rate of 0.57 percent on gross receipts with deductions. The 6.82 percent effective rate is calculated as detailed above, intended to reflect the burdens of a typical small business.</small>			
<small>Source: State and local revenue departments; Tax Foundation research.</small>			

This is an astonishingly high rate of local taxation, but it gets even worse when combined with federal taxes. Pass-through business owners pay federal individual income tax on all net income from their businesses. They are also legally responsible for paying employer-side Social Security and Medicare taxes for their employees, but it is important to note that (1) significant portions of these taxes are capped and thus are not on the marginal dollar and (2) economically speaking, employees bear the burdens of these taxes. The business owner does, however, bear the cost of both the employer and employee side of her own payroll taxes. Thus, the all-in top marginal rate on that portion of her income could be nearly 70 percent, adding the following federal taxes to her state obligations.

Tax	Tax Base	Level	Rate
Individual Income Tax	Individual Income	Federal	37.00%
Medicare Payroll Tax	Wages	Federal	2.90%
Additional Medicare Tax	Wages	Federal	0.90%
Portland State & Local Taxes	Multiple Sources	State/Local	26.19%
Current All-In Portland Tax Burden			66.99%
<small>Sources: Internal Revenue Service; state and local revenue departments; Tax Foundation research.</small>			

Finally, President Biden [has proposed](#) multiple changes to the federal income tax code pertaining to individuals and pass-through businesses, which are expected to feature in the forthcoming American Families Plan Act. (Corporate tax changes are included in the American Jobs Plan Act, which is in the process of being unveiled.) These proposals [include](#):

- Raising the top marginal individual income tax rate to 39.6 percent, a restoration of the pre-Tax Cuts and Jobs Act (TCJA) rate;
- Creating a payroll tax “donut hole” where the Social Security tax (6.2 percent each for employer and employee), currently only imposed on the first \$137,700 of wage income and therefore not part of a marginal rate, is restored above \$400,000 of income;
- Restoring the so-called Pease Limitation, which reduces the value of itemized deductions by 3 percent of every dollar of taxable income above a certain threshold (which can be expressed as a 1.118 percent marginal rate under a 39.6 percent top rate tax); and
- Capping all itemized deductions at 28 percent.

If these provisions became law, the federal taxes atop a Portland small business’s 26.19 percent marginal rate would be as follows.

Tax	Tax Base	Level	Rate
Individual Income Tax	Individual Income	Federal	39.60%
Social Security Above Donut Hole	Wages	Federal	12.40%
Medicare Payroll Tax	Wages	Federal	2.90%
Additional Medicare Tax	Wages	Federal	0.90%
Pease Limitation	Individual Income	Federal	1.188%
Portland State & Local Taxes	Multiple Sources	State/Local	26.19%
Biden Plan All-In Portland Tax Burden			83.18%

Sources: Internal Revenue Service; state and local revenue departments; Tax Foundation research.

And as if that’s not enough, a new state-level Paid Family Medical Leave tax of 1 percent on wages up to \$132,900 is coming next year. That’s a lot of taxes at every level, but the state’s high rates combined with anomalously high regional, county, and city-level taxes create a uniquely uncompetitive landscape in Portland.

Portland has always been proudly weird—but does it really want to be *this* weird?