

The Oregonian

Editorial: Soften the blow for small businesses

Commissioner Sam Adams deserves support for his plan to reduce the business license fee

Friday, December 08, 2006

Luckily, Portland attracts a constant stream of college graduates and so-called "young creatives." Although they may arrive here jobless, and spend a few years perfecting their latte-frothing technique, eventually they emerge from behind the barista bar, dream up new ventures and, in theory anyway, help the region steam up an extra-hot economy.

Unfortunately, when it comes time to make this transition, these would-be entrepreneurs discover the city of Portland poised to dip a straw into their success, with a peculiar business license fee that amounts to an income tax.

Portland businesses must pay 2.2 percent of their net income to the city. On top of that, they pay 1.45 percent to Multnomah County. This combined 3.65 percent tax bite hits professionals, small firms and nascent entrepreneurs the hardest. Yet these small businesses are the very ones Portland professes to be working hard to please and retain.

Eliminating the city tax would be ideal, but it generates between \$50 million and \$60 million a year. That amount is in the range of 15 percent of the city's general fund; a cut that size would force reductions in many of the very services that businesses depend on. Still, the city can, and should, soften the blow.

For several years, City Commissioner Sam Adams has championed reforms. Although some details still need to be worked out early in 2007, it appears the Portland City Council will finally stop evading this duty, knuckle down and look at reforms. An improved economic outlook should push the city to do the right thing, which also happens to be the smart thing. Reducing the tax burden of the city's small businesses will encourage them to grow and create more jobs.

Under changes that Adams proposes, business owners would take home a larger deduction for their own compensation before the city's business tax kicks in. Right now, that deduction is \$60,000. It should be twice that much. Adams, in the current version of his proposal, suggests raising it to \$80,000.

Adams also proposes raising the gross receipts that trigger the tax from the current \$25,000 floor to a more reasonable \$50,000. In addition, he favors some sort of sliding

scale for the city's minimum business tax, based on a firm's ability to pay. Right now, that minimum is set at \$100. Portland businesses that generate the bulk of their revenues outside the city can pay the minimum, while small firms wind up paying much more. That doesn't make much sense. The city should correct this inequity.

Does the exorbitant business license tax drive professional services and small business ventures out of town? There's ample anecdotal evidence to suggest it does.

Even so, of course, these businesses may still wind up boosting the region's economy. But it's silly for Portland to drive entrepreneurs out of town, just when they get serious about making real money.

Ideas have been kicked around for years about how to minimize the harm from the business license fee. A lot of lip service has been paid to the need to do so. An uptick in city revenues should at long last motivate the council to stop putting this off. It's not going to get any easier.