

Overview

Portland's central city has witnessed a substantial exodus of businesses since 2019, with many relocating to nearby counties. The official vacancy rate for office spaces in the central business district stands at approximately 26%, though it is anticipated to be significantly higher and expected to continue rising. Among the primary obstacles cited by departing businesses in Portland are taxation levels, safety concerns, and overall livability.

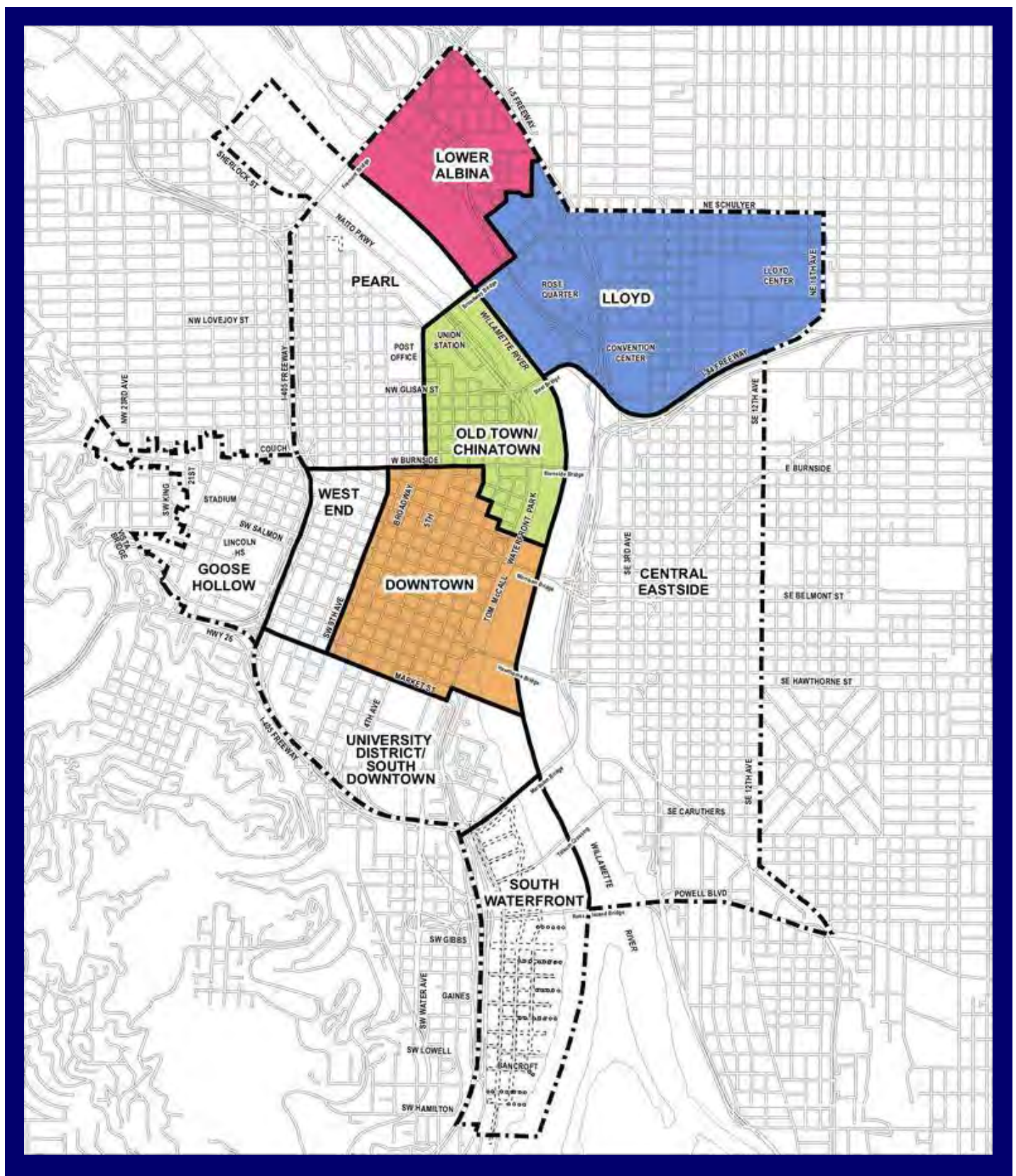
To address this challenge, the Portland City Council passed the Downtown Business Incentive (DBI) credit program on September 14, 2023.

The Downtown Business Incentive credit program is a \$25 million temporary, nonrefundable tax credit initiative strategically designed to stimulate both new commercial lease agreements and lease renewals. The program aims to retain and boost investments from a diverse array of central city tenants that contribute to job creation, tax revenue, and economic activity within the core of the city.

Travis Parrott, Managing Director of SIOR and Portland Market Leader said, "I was pleased to testify in front of the Mayor and City Council at City Hall in support of the business license tax incentive. Portland has long been known for its vibrant culture, but recently, it has been marred by high vacancy rates, unanticipated work-from-home strategies, and public safety concerns. It's imperative that the City take proactive steps to address these challenges and usher in a new era of growth and prosperity. We applaud the Mayor and City Council for passing this incentive and feel encouraged that more will be done to reverse the current trends."

An analysis conducted by EcoNorthwest has underscored the severity of the employment decline and reduced foot traffic in four specific sub-districts:

- Lower Albina
- Lloyd
- Downtown
- Old Town/Chinatown



Credit Eligibility Criteria

To participate in the DBI credit program, a business must meet the following requirements:

1. Have a City of Portland Business License Tax account and be in compliance with prior periods.
2. Either:
 - a. Enter a new lease or extend an existing lease during the 2023 or 2024 calendar year for building space within the eligible sub-district boundaries, with a duration of four years or more; or
 - b. Own and occupy building space within the eligible sub-district boundaries.
3. Employ a minimum of 15 workers who spend at least half their work time in the leased or owned building space within the eligible sub-district.



Credit Limitations

The DBI credit program offers a one-time, nonrefundable tax credit that can be claimed over four years, starting in either the tax year 2023 or 2024, provided the business meets the credit requirements.

The maximum credit available to each eligible business is capped at \$250,000, limited to the lesser of:

- 1% of the City of Portland "income subject to tax" as shown on the business tax return in the year of origination; or

- \$30 per square footage of building space covered in the lease/extension of building space used by a building owner's staff.

In the event that the program cap of \$25 million is reached, the Revenue Division may reduce the eligible credit on a pro rata basis. Businesses affected by reductions will receive notifications from the Revenue Division.

CLAIMING THE CREDIT ON YOUR TAX RETURN

Applying for the Credit

To avail of the credit, eligible businesses must submit an application. For the tax year 2023, the application deadline is on January 31, 2024, while for the tax year 2024, it will be on January 31, 2025. These application forms are accessible at portland.gov/revenue

If your business is entering into a new lease, a lease agreement initiated in 2023 can be used to calculate the credit on either the 2023 or 2024 business tax return. The year in which the credit originates will be 2023 if

calculated on the 2023 business tax return, or 2024 if calculated on the 2024 business tax return.

For businesses extending their existing lease, the extension must begin from the end date of their current lease expiring in 2023 or 2024. Additionally, building space owned during 2023 can also be used to calculate the credit on either the 2023 or 2024 business tax return.



Calculating the Credit

Businesses approved for the DBI credit will determine their total credit in the year they receive credit approval, referred to as the "year of origination." This credit will be evenly spread over four portions and deducted on the business tax return in the year of origination, as well as on the subsequent three years' business tax returns.

Claiming the Credit

In each of the four years, the credit claimed cannot exceed the City of Portland Business License Tax reported on the business tax return for that specific year. If the credit portion allowable for a particular year exceeds the City of Portland Business License Tax for that year, it cannot be carried forward or applied to the business tax return for any subsequent year.





Employee Verification

The business is obligated to provide a statement affirming that they maintained a workforce of 15 or more employees, with at least half of their time dedicated to working in the leased office space within the designated sub-district, for every year they seek to claim the credit.

Credit Repayment

Should the business terminate the lease prematurely, sell the building before the four-year credit period concludes, or fail to meet the employee requirements during the credit's four-year term, the entire previously claimed credit must be repaid, along with statutory interest. There will be no penalty imposed for the tax associated with the forfeited credit.

Key Dates and Deadlines

Tax Year	Application Due Date	Notification Timeframe
2023	1/31/2024	Within 45 days of application or 3/15/2024
2024	1/31/2025	Within 45 days of application or 3/15/2025

A business is only eligible to apply for one credit (for either 2023 or 2024). Only one application will be required for the credit.

If you have any questions regarding this credit, reply to this email or contact your KBF professional.