

Revenue Source: Payroll Tax

There are taxing districts around the nation, including several in Oregon, that assess a payroll tax on individual wages. Some local payroll taxes include, the City of Eugene, City of Sandy, City of Canby, Lane County Mass Transit District (LTD) and Tri-Met Transit (Tri-Met). While the most taxing districts use the revenues for transportation costs, the City of Eugene uses revenues for community safety expenses.

The City of Eugene's Community Safety Payroll Tax went into effect on January 1, 2021 and is collected quarterly. Administration of the payroll tax is being done through both City of Eugene employees as well as a third-party platform. The structure of the payroll tax is complex in that it has multiple taxing rates that is assessed depending on wages earned, but also has an employer paid component to the payroll tax. In 2019, the City of Salem referred an employee paid payroll tax as a ballot measure in for the election in May, 2020. Due to the COVID-19 pandemic, the City Council decided not to pursue the measure. A comparison of the employee paid payroll tax between the City of Eugene and the City of Salem as proposed in 2019 is below.

Employee Paid Payroll Tax Rates		
Hourly Wages	City of Eugene	City of Salem
Minimum Wage	Exempt	Exempt
Above Minimum Wage up to \$15	.0030	.00266
Above and Including \$15*	.0044	.0039

*The City of Salem's payroll tax rate of .0039 applied to those earning \$15 an hour, not just above.

The City of Eugene also has an employer paid component of the payroll tax initiative. For both the employee and employer paid taxes, wages are taxed based on where the physical location of the employer is. For example, if an employee works for a company located in Roseburg, but travels to Eugene to work for the day, those wages would not be assessed the payroll tax. Reversely, if an employee whose company is located in Eugene travels to work in Roseburg for the day, those wages would be assessed the tax. Below is an outline of the employer paid payroll tax rates; the City of Salem in the 2019 ordinance decided not to assess on employers.

Employer Paid Payroll Tax Rates		
Employer types	City of Eugene	City of Salem
Employers with 2 or less employees (first \$100,000 only)	.0015	-
All Other Employers*	.0021	-

* The City of Eugene can not assess a tax on another taxing jurisdiction, thus employers like the federal government, the State and other political subdivisions are exempt from the employer paid portion of the payroll tax.

Below is a table demonstrating revenue potential a City of Salem payroll tax. Staff is recommending that a flat tax rate paid among all wage earners. The complexity of taxing multiple taxing rates would likely enhance the administrative cost of operating the program. Annual wage data was provided to staff from the Oregon Department of Revenue from 2022 for the City of Salem, not the Salem MSA. This provides a more accurate picture of Salem specifically. The table below assumes a 20% delinquency rate to account for initial outreach and education compliance that will inevitably be necessary during a first year of collections.

2022 Taxable Wages Calculation	Projected Revenue <i>In millions</i>
0.4% of Wages	\$16.3
0.5% of Wages	\$21.1
0.6% of Wages	\$25.5
0.7% of Wages	\$29.8
0.8% of Wages	\$43.6