

# Pay Ratio Rule Leads to Local Tax Increases

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We recently published [a client alert](#) describing the possibility of a rollback of the pay ratio disclosure rule under the new administration.

The pay ratio rule has already produced unforeseen consequences. Quoting economist Thomas Piketty and citing numerous statistics on income inequality and CEO compensation, the city of Portland, Oregon, recently passed an ordinance authorizing a surtax to the city's business license tax for public companies doing business in Portland based on their pay ratio disclosure.

In addition to the current 2.2% business license tax, a surtax of 10% of base tax liability will be imposed once the disclosure is effective if a company reports a pay ratio of at least 100:1 but less than 250:1. Companies with pay ratios exceeding 250:1 will face a surtax of 25%.

There are currently at least 545 publicly traded companies subject to this tax in Portland, with collective revenue of \$17.9 million. The new surtax is projected to bring in annual tax revenue of between \$2.5 to \$3.5 million, and will be used to partly fund a city office devoted to homeless services.

In 2014, the California State Senate considered, but did not pass, a bill which would have enacted a new higher tax rate on all public companies, but reduce the rate for companies where the CEO's pay was less than 100 times that of the median worker.

In the same year, the Rhode Island State Senate passed a bill that would have given preference in state contracts to companies with small differences between CEO and worker pay, but it was defeated in the House. Massachusetts has also shown interest in enacting similar measures, so this may only be the beginning.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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