

STAFF REPORT

IN CONSIDERATION OF ORDINANCE NO. 26-1540, FOR THE PURPOSE OF AMENDING METRO CODE CHAPTER 7.05 (INCOME TAX ADMINISTRATION) REGARDING THE INTEREST RATE ADJUSTMENT PROCESS, MAKING CONFORMING AMENDMENTS TO METRO CODE CHAPTER 7.06 (PERSONAL INCOME TAX), AND DECLARING AN EMERGENCY

Date: January 29, 2026

Departments: Council Office,
Revenue and Analytics Division
Meeting Date: January 29, 2026

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Length: 15 min

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ISSUE STATEMENT

Council will consider an ordinance making four limited technical amendments to Metro Code Chapters 7.05 and 7.06 governing the administration of the Supportive Housing Services (SHS) personal income tax, repealing an associated administrative rule, and declaring an emergency. These amendments:

1. **Revise and clarify interest rate provisions in Metro Code 7.05.280(c) and (d)** by distinguishing between business and personal income tax interest rates, codifying historical personal income tax interest rates by time period, and aligning the personal income tax interest rate with the Oregon Department of Revenue (DOR) rate under ORS 305.220 beginning April 16, 2026.
2. **Update Metro Code 7.05.300 (Interest on Refunds)** to accurately reflect the interest rates applicable to SHS personal income tax refunds and to clarify the relationship between refund interest and deficiency interest.
3. **Update the estimated payment safe harbor threshold** in Metro Code 7.05.280(e)(1) to reflect the revised \$5,000 estimated payment threshold beginning in Tax Year 2026.
4. **Correct filing threshold language** in Metro Code 7.06.070 for Tax Years 2026–2030 to ensure the filing requirement continues to apply only to taxpayers with income over the exemption threshold, consistent with 2021–2025 policy and the indexing ordinance adopted by Council in June 2025.

These amendments improve clarity for taxpayers, ensure consistent treatment across tax years, and reduce long-term administrative burden.

ACTION REQUESTED

Hear comments and discuss potential adoption of Ordinance No. 26-1540 at an expected second read on February 5, 2026.

IDENTIFIED POLICY OUTCOMES

Identified policy outcomes include:

- Ensures the SHS personal income tax filing requirement remains focused on taxpayers with income **above** exemption thresholds, consistent with Council direction and voter expectations under Measure 26-210.
- Providing transparency and clarity regarding interest rates applicable to business income tax and personal income tax liabilities across different tax periods.
- Aligning Metro's SHS personal income tax interest rate with the State of Oregon's interest rate beginning April 16, 2026, while preserving a fixed interest rate for the business income tax.
- Ensuring estimated payment safe harbor protections reflect the updated \$5,000 threshold beginning in TY 2026.
- Reducing taxpayer confusion and prevents inconsistent application of interest on deficiencies and refunds

POLICY OPTIONS FOR COUNCIL TO CONSIDER

- **Adopt Ordinance No. 26-1540 as proposed.** Provides clarity for Tax Year 2026 filings and ensures accurate administration of interest on both deficiencies and refunds.
- **Amend Ordinance No. 26-1540** to refine timing or language
- **Postpone adoption**, which would require additional administrative interpretation and increase the risk of inconsistent interest calculations.

STAFF RECOMMENDATION

Staff recommends adoption of the ordinance as drafted.

These amendments are technical, necessary to implement previously adopted Council policy, and prevent administrative disruption as taxpayers begin filing TY 2025 returns and preparing for TY 2026.

STRATEGIC CONTEXT & FRAMING COUNCIL DISCUSSION

Exhibit A — Interest Rate Clarification and Alignment (7.05.280)

This ordinance revises Metro Code 7.05.280(c) to clearly distinguish between business income tax interest, which remains fixed at ten percent per annum, and personal income tax interest, which has varied by time period. The amendment codifies the personal income tax interest rates that applied during prior periods, providing transparency and legal clarity. Beginning April 16, 2026, Metro Code 7.05.280(d) aligns the personal income tax interest rate with the Oregon Department of Revenue's interest rate under ORS 305.220. Under the amended code, the applicable rate will automatically adjust each year, with changes effective April 15 (or the next business day), eliminating the need for future administrative rulemaking while preserving continuity for prior tax periods.

The ordinance also updates Metro Code 7.05.280(e)(1) to reflect Council's prior action increasing the estimated payment threshold from \$1,000 to \$5,000 beginning in TY 2026.

Exhibit B — Interest on Refunds Clarification (7.05.300)

Metro Code 7.05.300 is amended to ensure the interest rate paid on SHS personal income tax refunds accurately reflects the rates applicable during each time period and remains distinct from deficiency interest where appropriate. This amendment resolves ambiguity

created by prior cross references and ensures accurate calculations, transparency for taxpayers, and consistent administration.

Exhibit C — Correction to Filing Threshold Language (7.06.070)

When Council adopted income exemption indexing in June 2025, filing thresholds for TY 2026–2030 were intended to mirror the existing filing rule for TY 2021–2025: taxpayers must file only if their income is over the threshold. The code language adopted in 2025 unintentionally used “equal to or above,” which could obligate taxpayers to file even when no tax is due. This amendment restores the intended standard and ensures administrative consistency.

Repeal of Administrative Rule

The ordinance repeals **Metro Administrative Rule AR 7.05-1005**, as its provisions are now fully codified in Metro Code Sections 7.05.280 and 7.05.300. This eliminates duplicative regulation and reduces ongoing administrative workload.

Emergency Clause

The ordinance includes an emergency clause to ensure immediate effectiveness upon adoption. Immediate implementation is necessary to prevent taxpayer confusion and filing errors, maintain alignment with the Oregon Department of Revenue, avoid administrative disruption and duplicative rulemaking, and ensure consistent enforcement during the upcoming filing season.

Known Opposition/Support/Community Feedback

Stakeholders, including business groups, accounting firms, and the City of Portland Revenue Division, support these clarifying amendments to reduce filing confusion and ensure predictable administration. No organized opposition is known currently.

Legal Antecedents

- Measure 26-210 (2020) established the Supportive Housing Services personal and business income taxes.
- Metro Code Chapters 7.05 and 7.06 were adopted by Council to implement the tax.
- Ordinance No. 25-1531 (June 2025) established income exemption indexing and a revised estimated payment threshold beginning in TY 2026.

This ordinance clarifies and completes those policy actions.

Anticipated Effects

If adopted:

- Filing instructions, forms, and tax software for TY 2026 will accurately reflect the intended filing standard.
- The City of Portland Revenue Division will apply the updated safe harbor thresholds when assessing underpayment interest beginning in TY 2026.
- Metro will transition seamlessly to the DOR interest rate beginning April 16, 2026.
- Interest rates applicable to prior periods will be clearly codified in Metro Code.

Financial Implications

- The filing threshold correction has no measurable revenue impact.
- The updated safe harbor threshold affects the timing, but not the amount, of estimated payments.
- The interest rate clarification and alignment have neutral revenue effects and reduce

administrative overhead and risk of error.

BACKGROUND

These amendments directly implement and clarify actions adopted by Council in June 2025 and respond to operational review of interest rate administration. Codifying historical rates and clearly distinguishing between business and personal income tax interest supports transparency, consistency, and best practices in tax administration.

ATTACHMENTS

Exhibit A – Amendments to Metro Code 7.05.280

Exhibit B – Amendments to Metro Code 7.05.300

Exhibit C – Amendments to Metro Code 7.06.070