

# Supportive Housing Services: Metro Code

## Attachment 2 – Metro Income Tax code policy considerations

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The table below notes the areas where Metro income tax code may differ from Multnomah County or sets policy. Staff recommendations are noted.

### Chapter 7.05: Income Tax Administration for Personal and Business Taxes

Section	Comments
7.05.070 Administrative Authority	<p>Metro income tax code governs these taxes, but administrative rules provide additional explanation and clarification. Multnomah County allows the City of Portland to adopt admin rules for the MCBIT on their behalf. Staff propose the City of Portland, as administrator of these taxes, will coordinate with Metro to adopt administrative rules in accordance with Metro Administrative Rule code.</p> <p><i>No revenue impact</i></p>
7.05.200 Tax Return Payment; Minimum	<p>Some tax returns will result in no tax due (business net loss, personal income below thresholds). Staff propose a \$100 minimum tax on all business returns, the same as MCBIT and the City of Portland business license tax. This helps cover the cost of administration and tracking of business net operating losses which can be carried forward to future years. Staff propose no minimum tax on personal returns, to encourage individuals to file even when no tax is due.</p> <p><i>Immaterial revenue impact</i></p>
7.05.280 Interest	<p>The MCBIT and City of Portland charge 10% annual interest on unpaid tax. The State of Oregon personal income tax interest rate is relative to the IRS rate, and is currently 6%. At this point in implementation it is unclear what complications may arise in software programming and administration if Metro were to use a rate different than Multnomah County and the City of Portland. Staff propose stating a 10% annual rate in the code, but allowing the option to change the interest rate to match the State rate by administrative rule.</p> <p><i>Immaterial revenue impact</i></p>

### Chapter 7.06: Personal Income Tax

Section	Comments
7.06.030 Filing Status	<p>Ordinance 20-1442 provided a threshold of \$200,000 if filing jointly and \$125,000 if filing singly. There are five tax filing statuses: single, married filing jointly, married filing separately, qualifying widow(er) and head of household. Qualifying widow(er) status can be used by a widowed individual for two</p>

	<p>years following the year the spouse died. Head of household status can be used by unmarried individuals who have dependent(s) and pay more than 50% of household costs. Staff propose filing statuses married filing jointly and qualifying widow(er) would exempt the first \$200,000 of income, and the filing statuses single, married filing separately and head of household would exempt the first \$125,000 of income. This is consistent with the assumptions in the February 2020 ECONorthwest revenue estimate, with the exception of qualifying widow(er) which was not specified in the report. Alternatively, head of household status could exempt the first \$200,000 of income, or Metro Council could set an exemption amount specific to head of household filers.</p> <p><i>Immaterial revenue impact</i></p>
7.06.080 Deduction for Pass-through Income	<p>Metro's tax is unique in that it applies to both businesses and individuals. For businesses with pass-through income, such as sole proprietorships, s-corporations and partnerships, this could result in the same income being taxed twice, also known as 'double taxation'. Metro Council stated with their approval of Ordinance 20-1442 that this was not their intent. The code proposes the following solution:</p> <ul style="list-style-type: none"> <li>- Sole proprietorships would be exempt from the business tax, and report net business earnings only on the personal income tax return.</li> <li>- Pass-through entities, such as partnerships and s-corporations, would pay tax on the business return, and business income already taxed and also reported on the owner's return would be offset by a deduction.</li> </ul> <p><i>Estimated number of filers impacted:</i>  <i>Sole proprietorships: 100-200</i>  <i>Partnerships: 1,000-2,000</i>  <i>S-corporations: 2,200-4,500</i></p> <p><i>Total tax collections could be up to 15% less than originally estimated, though a more moderate scenario forecasts a 10% impact</i></p>
7.06.120 Withholding Tax on Wages	<p>The ITAX did not require employer withholding of tax, however many large employers chose to offer it. Withholding provides a consistent and stable revenue stream to support the SHS program, and ensures individuals aren't surprised by a large tax bill when filing their Metro tax return. Staff propose requiring Metro based employers <i>offer</i> withholding, if the employee elects it. Due to the high wage threshold and marital status impact, staff do not propose Metro require employers to withhold, as it would be challenging for the employer to determine the correct amount and could result in over-withholding.</p> <p><i>No revenue impact</i></p>

## Chapter 7.07: Business Income Tax

Section	Comments
Tax Exemptions	<p>The MCBIT exempts investment management firms and certain farm activities. The City and County have allowed exemptions to encourage businesses to stay within their boundaries; as a larger district and with a lower tax rate Metro is at less risk of businesses moving to avoid tax. Staff propose removing all industry specific exemptions.</p> <p><i>Potential revenue increase, amount unknown</i></p>
Owners' Compensation	<p>Owners' compensation is limited in MCBIT, to provide fairness across business types (certain types don't pay wages) and ensure business net profit isn't reduced to zero by increasing owner wages. With Metro's tax applying to both business and personal income this limitation is not necessary for those reasons. In addition, this limitation results in double taxation on compensation: the business pays tax on compensation over the limited amount, and the individual also pays tax on that compensation. Staff propose removing the owners' compensation limitation and allowing a deduction for all compensation paid.</p> <p><i>See revenue impact on section 7.06.080</i></p>