

Date: January 22, 2025

To: Board of Directors

From: Sam Desue, Jr.

Subject: **ORDINANCE NO. 379 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING CHAPTER 14 OF THE TRIMET CODE TO REVISE THE DEFINITION OF “NET EARNINGS FROM SELF-EMPLOYMENT” (SECOND READING)**

1. Purpose of Item

This Ordinance amends Chapter 14 of the TriMet Code to revise the definition of “net earnings from self-employment” in order to conform it with the definition in the Internal Revenue Code.

2. Type of Agenda Item

- Initial Contract
- Contract Modification
- Other: Ordinance

3. Reason for Board Action

State law requires the TriMet Board of Directors (Board) to act by ordinance on tax matters.

4. Type of Agenda Item

- Resolution
- Ordinance 1st Reading and public hearing
- Ordinance 2nd Reading
- Other _____

5. Background

TriMet’s self-employment and payroll taxes are required to conform to Oregon laws that govern transit district taxes. State law defines most of the terms used in the TriMet tax ordinances. In addition, ORS 267.380(1)(d) freezes the meaning of “net earnings from self-employment” to the definition under Section 1402 of the Internal Revenue Code of 1986, as in effect on December 31, 1988. However, ORS 267.380(1)(d) also gives TriMet the authority to adopt its own definitions of the terms used in the federal definition of “net earnings from self-employment.”

TriMet historically has chosen to incorporate by reference the federal definitions of the terms used in defining “net earnings from self-employment” in nearly all cases. However, federal tax law frequently changes, and Oregon’s Constitution prohibits any local government from simply adopting future amendments of federal law in local ordinances. Therefore, it is necessary for the Board to update Chapter 14 of the TriMet Code to “reconnect” to the federal definitions of the terms used in the definition of “net earnings from self-employment” as of a specific date.

TriMet's tax counsel, Stoel Rives LLP, reviews recent federal tax legislation on TriMet's behalf to determine whether there have been significant changes to federal tax law that could affect TriMet's self-employment tax. Tax counsel has determined that Congress did not pass legislation in 2024 that affects the measurement of net earnings from self-employment.

As in past years, tax counsel believes it is prudent for the Board to update the current reconnection date. Therefore, Ordinance No. 379 extends the reconnection date from December 31, 2023, to December 31, 2024, so taxpayers can more readily understand that the amounts shown on their 2024 federal income tax returns generally apply for purposes of the TriMet self-employment tax for 2024.

Consistent with TriMet's prior Ordinance No. 376, the present Ordinance No. 379 retains an express "carve-out" of the deduction allowed to owners of partnership interests or sole proprietorships by Section 199A of the Internal Revenue Code of 1986, as amended. This deduction is not allowed for federal self-employment tax purposes and retaining this express carve-out in the Ordinance should continue to make it clear that the deduction also is not allowed for TriMet self-employment tax purposes.

Congress could enact changes to federal tax law retroactively in early 2025 that could apply to the 2024 tax year. At TriMet's request, Stoel Rives is monitoring those potential developments and, if appropriate, will advise TriMet's General Counsel concerning any further recommended Board action.

6. Financial/Budget Impact

This Ordinance does not have a direct budgetary impact, but is expected to contribute to the efficient administration of TriMet's self-employment tax.

7. Impact if Not Approved

Because this matter is a housekeeping item required to keep TriMet's tax code consistent with the Internal Revenue Code, the only realistic option is for the Board to reconnect by the adoption of this Ordinance, as it has consistently done in prior years.

ORDINANCE NO. 379

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The Board of Directors of the Tri-County Metropolitan Transportation District of Oregon (TriMet), pursuant to its authority under ORS 267.380 and 267.385, does hereby ordain and decree the following ordinance:

Section 1 – Amendment of Chapter 14 of the TriMet Code.

Revision of Definition of “Net Earnings from Self-Employment.”

Section 14.05C of the TriMet Code is amended in its entirety to read as follows:

“Net Earnings from Self-Employment” has the same meaning as the term “net earnings from self-employment” in Section 1402 of the Internal Revenue Code of 1986 (the “IRC”), as that section was in effect and operative on December 31, 1988. In applying IRC Section 1402 for purposes of this Chapter, the words “gross income,” “deductions” and “distributive share,” and any other words used in IRC Section 1402 to define “net earnings from self-employment,” shall have the same meaning that those words had for purposes of IRC Section 1402 under federal income tax laws in effect and operative as of December 31, 2024, provided, however, that the phrase “deductions allowed by this subtitle which are attributable to such trade or business” shall not include the deduction contained in IRC Section 199A (related to qualified business income). The purpose of these definitions is to incorporate any relevant changes in the Internal Revenue Code of 1986 made and in effect on or before December 31, 2024, except for changes in IRC Section 1402 made after December 31, 1988. For the purposes of this Section, the term “net earnings from self-employment” is not limited in any way by IRC Section 1402(b).

Notwithstanding the foregoing, “net earnings from self-employment” does not include income which would be wages under Section 3121 of the Internal Revenue Code, as amended and in effect on December 31, 1990, but for the provisions of Section 3121(b)(8)(A) of the Internal Revenue Code.

Section 2 – Effective Date

This Ordinance shall take effect thirty days after the date of its adoption. This Ordinance shall apply to individuals' taxable years starting on or after January 1, 2024.

Dated: January 22, 2025

Presiding Officer

Attest:

Recording Secretary

Approved as to Legal Sufficiency:



Legal Department