

**REVENUE IMPACT OF
PROPOSED LEGISLATION**
82nd Oregon Legislative Assembly
2023 Regular Session
Legislative Revenue Office

Bill Number: SB 540 - 4
Revenue Area: Personal Income Tax
Economist: Kyle Easton
Date: 4/25/2023

*Only Impacts on Original or Engrossed
Versions are Considered Official*

Measure Description:

Exempts from Oregon personal income tax, up to \$17,500 in retirement or pension income received for service in the Armed Forces of the United States. Defines Armed Forces to include the regular and reserve components of the Army, Navy, Air Force, Marine Corps, Coast Guard, Space Force, and the National Guard. Requires taxpayer to be less than 63 years of age at close of the taxable year. Indexes subtraction limit to consumer price index beginning with tax year 2024. Applies to tax years 2023 through 2028.

Revenue Impact (in \$Millions):

	Fiscal Year		Biennium		
	2023-24	2024-25	2023-25	2025-27	2027-29
General Fund	-\$8.2	-\$8.6	-\$16.9	-\$18.2	-\$19.6

Impact Explanation:

Pension income attributable to federal employment prior to October 1, 1991, is exempt from Oregon personal income tax under current law. Qualifying taxpayers with sufficient taxable military pension income may benefit from the existing federal pension subtraction and the proposed military pension income subtraction, though such income may only be subtracted once. Proposed subtraction allows taxpayers less than 63 years of age to subtract up to \$17,500 in military pension income from taxable income, a reduction in income tax of about \$1,500 for those taxpayers subtracting the full amount. Beginning with tax year 2024, the \$17,500 subtraction limit will be adjusted for inflation. Subtraction is assumed to apply for six tax years per applicability limit contained in ORS 315.037.

According to the annual Department of Defense Statistical Report on the Military Retirement System, about 8,500 military retirees (Army, Navy, Marines, Air Force, Coast Guard) under the age of 65 reside in Oregon. Analysis of tax return data suggests about 7,000 Oregon taxpayers under the age of 63 report taxable military pension income (net of federal pre-1991 pension subtraction). The distribution of such taxpayers is about 1/3rd with adjusted gross income (AGI) less than \$80,000, about 1/3rd with AGI \$80,000 to \$150,000 and about 1/3rd with an AGI exceeding \$150,000. Revenue impact estimate assumes a relatively constant number of military retirees in Oregon in future years. Growth in revenue loss results from indexing the subtraction limit beginning in 2024, and from the expected future decline in the pre-1991 federal pension income subtraction (causing a greater amount of military pension income to be subtracted under proposed measure as compared to existing federal pension subtraction).

Creates, Extends, or Expands Tax Expenditure: Yes No

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The policy purpose of this measure is to attract working age veterans to live and work in Oregon by providing greater income tax parity of military pension and retirement income between Oregon and other states.