

SB 540 -4 STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

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Meeting Dates: 2/1, 3/22, 6/22

WHAT THE MEASURE DOES:

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 and up to \$17,500 in retirement pay or pension income received from other sources. Requires taxpayer to be 62 or younger and receive taxable retirement pay or pension income for service in the Armed Forces. Defines terms. Applies to tax years 2023 through 2028.

ISSUES DISCUSSED:

- Amendment expected relating to feedback from Department of Revenue and Public Employees Retirement System
- Proposed language defining pensions for military
- Recent changes to military retirement pensions
- Definition of "Armed forces of the United States"
- Existing law exclusion of Veterans Affairs benefits
- Average military pension amount
- U.S. Merchant Marines.

EFFECT OF AMENDMENT:

-4 Modifies age requirement. Specifies subtraction is available to taxpayer that has not attained 63 years of age before the close of the taxable year. Provides Department of Revenue rulemaking authority. Indexes subtraction limits to consumer price index beginning with tax year 2024. Removes subtraction of retirement pay or pension received from other sources.

BACKGROUND:

Measure defines "Armed Forces of the United States" to include the regular and reserve components of the Army, Navy, Air Force, Marine Corps, Coast Guard and Space Force of the United States and the National Guard.

Retirement benefits in the form of pension or annuity payments from an employer are generally subject to income taxation unless the payment is a qualified tax exempt distribution. If an individual did not contribute after-tax income amounts or the employer did not withhold after-tax contributions from the individual's salary, then the retirement income is generally taxable. Military retirement pay that is based on age or length of service is taxable and is required to be reported as pension income on a personal income tax return. By contrast, all benefits administered by the Department of Veterans Affairs are exempt from taxation including pension and disability compensation. Additionally, pension income attributable to federal employment prior to October 1, 1991, is exempt from the Oregon personal income tax.