

SB 225 -1 STAFF MEASURE SUMMARY

Senate Committee On Veterans, Emergency Management, Federal and World Affairs

Prepared By: Kevin Rancik, LPRO Analyst

Meeting Dates: 2/4, 3/13

WHAT THE MEASURE DOES:

The measure exempts up to \$17,500 from federal taxable income for taxpayers who have not reached 63 years of age before the close of the taxable year, and whose federal taxable income includes retirement pay or pension for service in the Armed Forces of the United States. The exemption may not exceed the total amount of retirement pay or pension the taxpayer receives, nor include retirement pay or pension that is subtracted for federal employment prior to October 1, 1991. The Department of Revenue is directed to adjust the maximum exemption for inflation. The measure applies to tax years beginning on or after January 1, 2025 and takes effect on the 91st day following adjournment sine die.

Fiscal impact: Minimal fiscal impact

Revenue impact: Revenue impact issued

ISSUES DISCUSSED:

- Source of veterans' retirement pay is federal, not state, dollars
- Economic impact of veteran presence
- Previous efforts to address taxes on veteran retirement pay

EFFECT OF AMENDMENT:

-1 The amendment changes eligibility for the exemption to those 63 years of age and above. It clarifies that the exemption covers federal retirement pay or pensions.

BACKGROUND:

Serving in the United States Armed Forces may allow service members to receive certain retirement and pension benefits, depending on length of service and other factors. Oregon is one of eleven states that partially tax military retirement benefits. Five additional states fully tax these benefits, while 34 either do not have state income tax, or do not tax military retirement benefits. ORS 316.680(1)(e) exempts federal pension income attributable to federal employment prior to October 1, 1991 from federal taxable income; this income could not be included in the exemption created by Senate Bill 225.

Senate Bill 225 would exempt up to \$17,500 in retirement pay or pension, resulting from service in the Armed Forces of the United States, from federal taxable income for specified individuals.