

HB 2050 -2, -3, -4, -5, -6, -7 STAFF MEASURE SUMMARY

House Committee On Emergency Management, General Government, and Veterans

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Sub-Referral To: House Committee On Revenue

Meeting Dates: 3/18, 4/3, 4/8

WHAT THE MEASURE DOES:

The measure exempts from state income tax all retirement pay, or pension received for services in the Armed Forces, that is included in the taxpayer's federal taxable income for the tax year.

Detailed Summary

- Defines the Armed Forces of the United States
- Defines veterans as found in ORS 408.225, including those discharged or released under honorable or other than honorable conditions.
- Subtracts from federal taxable income all retirement pay or pension that the taxpayer received for service in the Armed Forces of the United States that is included in their federal taxable income for the tax year.
- Limits subtraction to not exceed the taxpayer's total retirement pay or pension received that is included in the taxpayer federal taxable income for the tax year.
- Limits subtraction to not include any amount of retirement pay or pension that is included in ORS 316.680, which describes modifications of taxable income.
- Allows for the adoption of rules.
- Takes effect to tax years beginning on or after January 1, 2026.

Fiscal impact: Minimal fiscal impact

Revenue impact: Revenue lite

ISSUES DISCUSSED:

- Concerns that state taxation on military retirement might impact out migration
- Questions about the fiscal impact and suggestions for other revenue sources
- Questions about the condition of discharge that veterans would need to qualify

EFFECT OF AMENDMENT:

-2 Replaces the definition for veteran to be the meaning given that term in ORS 408.225.

-3 Adds surviving spouse of a veteran to those eligible to receive the exemption for retirement pay or pension received for the veteran's service in the Armed Forces.

-4 Clarifies that all retirement and pension pay is from federal sources.

-5 Replaces measure.

- Defines the Armed Forces of the United States
- Defines veterans as found in ORS 408.225
- Subtracts from federal taxable income up to \$15,000 retirement pay or pension that the taxpayer received for service in the Armed Forces of the United States that is included in their federal taxable income for the tax year.
- Includes veterans and surviving spouse of a veteran; and is age 63 before the close of the taxable year.
- Limits subtraction to not exceed the taxpayer's total retirement pay or pension received that is included in the taxpayer federal taxable income for the tax year.
- Limits subtraction to not include any amount of retirement pay or pension subtracted under ORS 316.680.

This summary has not been adopted or officially endorsed by action of the committee.

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- Requires the Department of Revenue to adjust the maximum dollar amount based on annual cost of living in increases as document in the Consumer Price Index. If the dollar increase is not a multiple of \$50, the department will round up to the dollar amount of the increase to the next lower multiple of \$50.
- Allows for the adoption of rules.
- Takes effect to tax years beginning on or after January 1, 2026.

-6 Replaces measure.

- Defines the Armed Forces of the United States.
- Defines disabled veterans as found in ORS 408.225.
- Defines veterans as found in ORS 408.225.
- Subtracts from federal taxable income all retirement pay or pension received for service in the Armed Forces of the United States that is included in their federal taxable income for the tax year, for veterans, 100% disabled veterans or member of a reserve component or the National Guard.
- Limits subtraction to not exceed the taxpayer's total retirement pay or pension received that is included in the taxpayer federal taxable income for the tax year.
- Limits subtraction to not include any amount of retirement pay or pension subtracted under ORS 316.680.
- Allows for the adoption of rules.
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- Limits subtraction to not exceed the taxpayer's total retirement pay or pension received that is included in the taxpayer federal taxable income for the tax year.
- Limits subtraction to not include any amount of retirement pay or pension subtracted under ORS 316.680.
- Allows for the adoption of rules.
- Takes effect to tax years beginning on or after January 1, 2026.

BACKGROUND:

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 under existing law.