SB 225 A STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

Prepared By: Kyle Easton, Senior Economist
Meeting Dates: 4/21, 5/28

WHAT THE MEASURE DOES:

Creates personal income tax subtraction up to $17,500 for retirement or pension income received for service in the Armed Forces of the United States. Defines terms. Specifies subtraction is available to taxpayer that has attained 63 years of age before the close of the taxable year. Indexes subtraction limit to consumer price index (West Region) beginning with tax year 2026. Subtraction made applicable for tax years 2025 through 2030. Takes effect on the 91st day following adjournment sine die.

ISSUES DISCUSSED:

- Background on policy proposal
- Policy designed to exempt first $17,500 (indexed) in retirement income
- Varying amounts of pension income earned from service
- Varying situations of veterans
- Servicemembers and veterans
- Removing a potential deterrent from retiring in Oregon with military pension income.

EFFECT OF AMENDMENT:

No amendment.

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 under existing law.

Measure makes subtraction applicable to tax years beginning on or after January 1, 2025. Per ORS 315.037, tax expenditures enacted after January 1, 2014, shall apply for a maximum of six tax years unless the Legislative Assembly expressly provides for another period of applicability. This causes the proposed subtraction to sunset following the 2030 tax year.