

FISCAL IMPACT OF PROPOSED LEGISLATION**Measure: SB 540 - 4**

82nd Oregon Legislative Assembly – 2023 Regular Session

Legislative Fiscal Office

Only Impacts on Original or Engrossed Versions are Considered Official

Prepared by: Michael Graham
 Reviewed by: John Borden, Doug Wilson
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Measure Description:

Subtracts from state income for taxpayers who have not attained 63 years of age before the close of the taxable year in which the tax return is filed and whose taxable income includes retirement pay or pension for service in the Armed Forces of the United States up to \$17,500 in retirement pay or pension received for service in the Armed Forces of the United States.

Government Unit(s) Affected:

Department of Revenue, Oregon Judicial Department

Summary of Fiscal Impact:

Costs related to the measure may require budgetary action - See analysis.

Summary of Expenditure Impact:

	2023-25 Biennium	2025-27 Biennium
Department of Revenue		
General Fund		
Personal Services	\$67,156	\$67,156
Services and Supplies	\$6,580	\$6,764
Total General Fund	\$73,736	\$73,920
Other Funds		
Personal Services	1,371	1,371
Services and Supplies	\$322	\$138
Total Other Funds	\$1,693	\$1,509
Total Fiscal Impact	\$75,429	\$75,429
<i>Total Positions</i>	1	1
<i>Total FTE</i>	0.50	0.50

Analysis:

Senate Bill 540, as amended by the -4 amendments, creates a new subtraction for state personal income tax for taxpayers receiving retirement pay or a pension for service in the Armed Forces of the United States. The subtraction is available for taxpayers who have not attained 63 years of age before the close of the taxable year in which the tax return is filed, and it is limited to \$17,500 in retirement pay or pension received for service in the Armed Forces of the United States. The total amount subtracted may not exceed the taxpayer's total retirement pay or pension received for service in the Armed Forces of the United States included in the taxpayer's taxable income for the tax year. Beginning with the start of the tax year of January 1, 2024, the Department of Revenue (DOR) must annually index the subtraction amount to the Consumer Price Index for All Urban Consumers, West Region (All Items). The subtraction from state income applies to tax years beginning on or after January 1, 2023.

Department of Revenue

The measure is anticipated to have a fiscal impact on DOR. To implement this new subtraction, DOR would need to update forms and instructions to include new subtraction code information. DOR would incur some additional

information technology costs to program Quick Modules and GenTax accept new subtraction codes, including verifying subtraction amount based on claimed pension/retirement income and the maximum allowable subtraction amount, and a new explanation code. Verification of compliance would also be necessary after filing season through random checks on returns claiming the subtraction, which could be accomplished with existing staff. These costs are anticipated to be minimal and absorbable within DOR's 2023-25 current service level; however, if multiple bills pass with a minimal fiscal impact, there could be a cumulative fiscal impact to DOR.

The Legislative Revenue Office (LRO) estimates that there are 7,000 taxpayers that report military retirement income on their Oregon personal income tax returns who are under 63 years of age, according to LRO's report dated March 22, 2023, to the Senate Committee on Finance and Revenue. Based on this assumption, DOR estimates that approximately 40% (2,800) of those 7,000 taxpayers would contact the Tax Services Unit with questions about this new subtraction. DOR anticipates needing one seasonal Public Service Representative 3 position (0.50 FTE) to answer to taxpayer inquiries and phone calls about how to claim the subtraction. This position would likely last from December 2023 to May 2024 and December 2024 to May 2025. The estimated cost of this position, including related services and supplies, is \$75,429 General Fund in the 2023-25 and 2025-27 biennia.

The measure warrants a subsequent referral to the Joint Committee on Ways and Means for consideration of its impact to the State's General Fund and DOR's biennial budget.

Oregon Judicial Department

The measure is anticipated to have a minimal fiscal impact on the Oregon Judicial Department.