

Veteran or Military Related Tax Expenditures and Estimated 2007-09 Revenue Impact for Oregon

This document contains very brief descriptions of tax expenditures either directly related to or potentially beneficial to veterans or other military personnel. Estimates of the direct Oregon revenue impacts for the 2007-09 biennium are included. Federal provisions are categorized as an exclusion, deduction, or credit while Oregon provisions are listed as a subtraction, credit, or property tax exemption.

Exclusions and Deductions are income tax expenditures that result from Oregon's tie to the federal definition of taxable income. Exclusions are income that is not included on tax returns. Deductions reduce the amount of income that is taxed; they are either itemized deductions or "above-the-line" deductions. The "above-the-line" deductions (also known as adjustments) are provisions that reduce taxable income and may be used by all filers. Federal credits have no direct revenue impact on Oregon, but are included for informational purposes.

Subtractions and credits are tax provisions created by the Oregon Legislature and are part of the Oregon Revised Statutes. Subtractions are similar to deductions; they reduce the amount of income that is taxed. They are essentially deductions allowed by the state but not the federal government. Oregon credits are a direct reduction in tax. Property tax exemptions are amounts of property value not subject to taxation.

Provisions Exclusive to Veterans or Other Military Personnel

Federal Exclusions

Veterans' Benefits and Services (1917) \$46 Million

Benefits provided by the U.S. Department of Veterans Affairs are not considered taxable income. Such benefits include disability compensation, pensions, and educational assistance.

Benefits & Allowances of Armed Forces Personnel (1925) \$24 Million

Various in-kind benefits, including medical and dental benefits, received by military personnel are not considered taxable. Also included here are the exclusions for combat-zone compensation and death gratuity payments.

Military TRICARE Insurance (1925) \$23 Million

Untaxed medical and dental benefits are also provided to active duty dependents, as well as retired military and their dependents.

Military Disability Benefits (1942) \$1 Million

Individuals who were members of the armed forces are not taxed on their disability payments. Also, the Victims of Terrorism Tax Relief Act of 2001 extended the exclusion to anyone whose disability is attributable to an act of terrorism or military action.

Federal Deductions

Certain National Guard and Reservist Expenses (2005) \$1 Million

Expenses for overnight travel, meals, and lodging that are not reimbursed may be deducted from federal gross income. To qualify, the travel distance must be at least 100 miles away from home and the overnight stay is part of official duty.

Federal Credits

Work Opportunity Tax Credit (1996, 2007) None

This credit is available to employers who hire certain individuals. One eligible group is veterans who are members of a family receiving benefits under the Food Stamp program for at least a 3-month period ending during the 15-months prior to the hiring date or are entitled to compensation for a service-connected disability and are either hired within one year of being discharged or have been unemployed for at least six months during the 12 months prior to the hiring date.

Oregon Subtractions

Military Active Duty Pay (1969, 2007) \$36 Million

Military pay earned outside Oregon and up to \$6,000 earned in Oregon is not taxed by the state. Part of this subtraction is for Oregon National Guard members and Reservists who are called to active duty in Oregon.

TRICARE Payments (2007) \$1 Million

Medical providers are allowed a subtraction from income of TRICARE payments for the first two years of participation in the TRICARE system.

Oregon Credits

Physicians of Oregon Veterans' Home (2007) \$1 Million

Physicians who provide medical care to residents of an Oregon Veterans' Home are allowed a credit of up to \$5,000.

TRICARE Participation (2007) \$2 Million

Medical providers are allowed a \$2,500 credit for their first year participating in the TRICARE system and a \$1,000 credit for each year he or she actively participates in the system.

Property Tax Exemptions

Disabled War Veterans/Spouses (1921, 2007) \$31 Million

Eligible war veterans or their surviving spouses are allowed an exemption of \$15,000 from their homestead or personal property's assessed value. The exemption amount is \$18,000 for veterans with service-connected disabilities. The exemptions amount increases by three percent per year.

War Veterans in Nonprofit Elderly Housing (1969) < \$1 Million
Qualified nonprofit homes for the elderly are allowed the veteran's property tax exemption if they pass the tax benefit through to the eligible individuals via lower rents.

Homestead Exemption for Military (2005, 2007) < \$1 Million
Certain members of the Oregon National Guard are allowed an exemption of up to \$60,000 from their homestead assessed value. To be eligible, the members must have been initially ordered to active duty after January 1, 2005 and serve for at least 178 consecutive days.

Other

Title 10 Active Duty Death (2005) Minimal
Individuals who die while performing military duties are absolved from their income tax liability debt. To qualify, they must have been under Title 10 service for 90 or more days at the time of death, and the death must occur on or after September 11, 2001.

Home Loan Amortization (2007) NA
Home loans made to veterans under article XI-A of the Oregon Constitution may be for amortization periods of up to 40 years.

Provisions of Potential Benefit to Veterans and Other Military Personnel

Federal Exclusions

Employer Provided Education Benefits (1997) \$8 Million
Employer provided graduate and undergraduate assistance benefits, up to \$5,250 annually, are excluded from taxable income if they are part of an educational assistance program.

Discharge of Student Loan Debt (1984) Minimal
Loans made by federal, state, or local governments, public benefit corporations, and qualified educational institutions that are forgiven conditional on performing services in a specified occupation for a certain period of time are excluded from taxable income.

Federal Deductions

Interest on Student Loans (1997) \$14 Million
Up to \$2,500 of interest on qualified higher education loans may be deducted from taxable income.

Qualified Higher Education Expenses (2001) \$5 Million
Taxpayers may deduct up to \$4,000 of qualified higher education expenses paid by the taxpayer. Qualified expenses include tuition and fees paid at a post-secondary educational institution.

Federal Credits

Higher Education Credits (1997) None

A Hope Scholarship Credit may be claimed for two taxable years for qualified expenses incurred while attending an eligible postsecondary education program, if the student has not completed the first two years of undergraduate education. The Lifetime Learning Credit provides a credit of up to \$2,000 per tax return for qualified tuition and fees that taxpayers pay for themselves, their spouses, or their dependents. The credit is available for any number of years for any level of postsecondary education to improve an individual's job skills.

Oregon Subtractions

Oregon 529 College Savings Network (1999, 2007) \$7 Million

A subtraction of up to \$2,000 (\$4,000 for joint filers) is allowed for contributions made to Oregon 529 College Savings Network accounts.

Individual Development Accounts (1999) Minimal

Contributions, matching deposits (from fiduciary organizations), and account earnings of these accounts for low-income households are exempt from state taxation if used for approved purposes, such as paying for a postsecondary education, first-time purchase of a primary residence, and the capitalization of a small business.

Oregon Credits

Employer Provided Scholarships (2001) Minimal

Qualifying employers may claim a credit for 50 percent of the amount of scholarships funded for their employees (and dependents), up to a maximum of \$50,000 per year.

Earned Income Credit (1997, 2007) \$40 Million

Eligible low-income taxpayers are allowed a refundable credit equal to 6 percent of the federal EIC.

Property Tax Exemptions

Industry Apprenticeship/Training Trust (1983) < \$1 Million

All real and personal property owned or leased by an industry apprenticeship or training trust is exempt from property taxation, if certain qualifying conditions are met.