150-316-0525

The formula for section (2) of the rule is as follows:

$$\frac{a-b}{c} \times d = \text{Oregon exempt portion of distribution for current year}$$

a = total exempt earnings on account date.
b = total exempt part of prior year's distributions.
c = total account balance prior to the current year distribution.
d = current year distribution.

Example 1 (for section (2) of the rule): Sylvester set up an individual retirement account (IRA) which invested solely in U.S. Government securities throughout the life of the IRA. Sylvester contributed $2,000 per year for a period of 35 years to the IRA. At retirement his account balance is $542,041, of which $472,041 consists of interest and $70,000 the original contributions. His life expectancy is 20 years and the annual payout will be $63,668 paid at the end of each year. The rate of earnings equals 10 percent and for simplicity, the investments continue to earn at the rate of 10 percent.

Since the IRA continued to invest solely in U.S. Government securities after Sylvester retired, the numerator of the ratio for the first year's distribution would include all prior year's earnings plus the earnings for that year. The earnings for the first year of retirement equals $54,204. Therefore, the numerator in the ratio equals 526,245 (472,041 + 54,204). The account balance at the end of the first year equals $532,577 (Note: this is after the current year's distribution). We add back the current year's distribution to obtain the balance of the account just prior to the current year's distribution (the denominator in the formula).

Sylvester's tax-exempt interest for his first year of retirement is $56,193, computed as follows:

$$\frac{526,245 - 0}{532,577 + 63,668} \times 63,668 = \$56,193$$

During Sylvester's second year of retirement the account earns $53,258, and the account balance at the end of the year is $522,167. His tax-exempt interest that year is $56,873, computed as follows:

$$\frac{(526,245 + 53,258) - 56,193}{522,167 + 63,668} \times 63,668 = \$56,873$$

In the third year the account earns $52,217, and the account balance at the end of the year is $510,716. Sylvester's tax-exempt interest that year is $57,491, computed as follows:

$$\frac{(579,503 + 52,271) - 56,193 - 56,873}{}$$

$$\frac{}{510,716 + 63,668} \quad x\ 63,668 = \$57,491$$

Table 1

This table illustrates **Example 1:**

Distribution Year	Exempt Earnings	Distribution	Account Balance 12/31	Earning Rate	Earnings	Subtraction	Ratio
			542,041			0	
1	526,245	63,668	532,577	.10	54,204	56,193	.8826
2	523,310	63,668	522,167	.10	53,258	56,873	.8933
3	518,653	63,668	510,716	.10	52,217	57,491	.9030
4	512,234	63,668	498,120	.10	51,072	58,052	.9118
5	503,994	63,668	484,264	.10	49,812	58,563	.9198
6	493,858	63,668	469,022	.10	48,426	59,027	.9271
7	481,733	63,668	452,256	.10	46,902	59,449	.9337
8	467,510	63,668	433,814	.10	45,226	59,832	.9398
9	451,059	63,668	413,527	.10	43,381	60,181	.9452
10	432,230	63,668	391,212	.10	41,353	60,498	.9502
11	410,853	63,668	366,665	.10	39,121	60,786	.9547
12	386,734	63,668	339,664	.10	36,667	61,048	.9589
13	359,652	63,668	309,962	.10	33,966	61,286	.9626
14	329,361	63,668	277,290	.10	30,996	61,503	.9660
15	295,587	63,668	241,351	.10	27,729	61,700	.9691
16	258,023	63,668	201,818	.10	24,135	61,879	.9719
17	216,326	63,668	158,332	.10	20,182	62,041	.9745
18	170,117	63,668	110,497	.10	15,833	62,189	.9768
19	18,977	63,668	57,879	.10	11,050	62,324	.9789
20	62,441	63,668	0	.10	5,789	62,446	.9808

Total prior earnings prior to annuity starting date   472,041

Total earnings and total amount subtracted   1,203,360   1,203,360

Example 2 (for section (2) of the rule): Assume the facts in Example 1, except the IRA which Sylvester set up ceased investing in U.S. Government securities the year in which Sylvester

retired. Therefore, the balance of exempt interest earnings is equal to 472,041 for computing the first year's subtraction (the numerator of the ratio). It would not include the first year's earnings as in Example 1 since those earnings are not earnings on U.S. Government securities. For simplicity we will assume the investment is earning at the same rate (10 percent each year). Therefore, the account balance is the same as in Example 1. Sylvester's tax-exempt interest for his first year of retirement is $50,405, computed as follows:

$$\frac{472,041 - 0}{532,577 + 63,668} \times 63,668 = \$50,405$$

During Sylvester's second year of retirement the account earns $53,258, and the account balance at the end of the year is $522,167. His tax-exempt interest that year is $45,823, computed as follows:

$$\frac{472,041 - 50,405}{522,167 + 63,668} \times 63,668 = \$45,823$$

During Sylvester's third year of retirement the account earns $52,217, and the account balance at the end of the year is $510,715. His tax-exempt interest that year is $41,657, computed as follows:

$$\frac{472,041 - 50,405 - 45,823}{510,715 + 63,668} \times 63,668 = \$41,657$$

Table 2

This table illustrates **Example 2**:

Distribution Year	Exempt Earnings	Distribution	Account Balance 12/31	Earning Rate	Earnings	Subtraction	Ratio
1	472,041	63,668	532,577	.10	54,204	50,405	.7917
2	421,636	63,668	522,167	.10	53,258	45,823	.7197
3	375,813	63,668	510,716	.10	52,217	41,657	.6543
4	334,155	63,668	498,120	.10	51,072	37,870	.5948
5	296,285	63,668	484,264	.10	49,812	34,427	.5407
6	261,858	63,668	469,022	.10	48,426	31,298	.4916
7	230,560	63,668	452,256	.10	46,902	28,452	.4469
8	202,107	63,668	433,814	.10	45,226	25,866	.4063
9	176,242	63,668	413,527	.10	43,381	23,514	.3693
10	152,727	63,668	391,212	.10	41,353	21,377	.3358

11	131,350	63,668	366,665	.10	39,121	19,433	.3052
12	111,917	63,668	339,664	.10	36,667	17,667	.2775
13	94,250	63,668	309,962	.10	33,966	16,061	.2523
14	78,190	63,668	277,290	.10	30,996	14,601	.2293
15	63,589	63,668	241,351	.10	27,729	13,273	.2085
16	50,313	63,668	201,818	.10	24,135	12,067	.1895
17	38,249	63,668	158,332	.10	20,182	10,970	.1723
18	27,279	63,668	110,497	.10	15,833	9,972	.1566
19	17,307	63,668	57,879	.10	11,050	9,066	.1424
20	8,241	63,668	(0)	.10	5,789	8,242	.1294
Total amount subtracted at the end of the annuity					472,042		

Example 3 (for section 3 of the rule): Assume the same facts as in Example 2, except that Sylvester elected to receive the $542,041 balance of his account as a lump-sum distribution. The subtraction for the taxable year is $472,041, the amount of U.S. government interest in the account.

Example 4 (for section 4 of the rule): Assume the same facts in Example 2, except Sylvester became a resident in the second year of distribution. Sylvester's subtraction would equal $45,823 in that year. Note: This is the same amount of subtraction Sylvester received in the second year of distribution as computed in Example 2. Sylvester's subtraction would equal $41,657 in the third year of distribution (same as if he were a resident at the annuity starting date).