

Tax Tips for Military Personnel



Members of the military and their families may be eligible for special tax benefits. This brochure presents a brief summary of some of the special tax provisions that may apply.

For federal tax purposes, the U.S. Armed Forces includes officers and enlisted personnel in all regular and reserve units controlled by the Secretaries of Defense, the Army, Navy and Air Force. The Coast Guard is also included, but not the U.S. Merchant Marine or the American Red Cross.

General Military Provisions

Uniform Cost and Upkeep. In general, the expenses for uniform cost and upkeep are nondeductible. If military regulations prohibit you from wearing certain uniforms when off duty, you can deduct the cost and upkeep of those uniforms, but you must reduce your expenses by any allowance or reimbursement you receive.

Travel to Reserve Duty. If you are a member of the US Armed Forces Reserves, unreimbursed travel expenses for traveling more than 100 miles away from home to perform your reserve duties are eligible for deduction. You do not have to itemize deductions since eligible expenses are deducted as an adjustment to income.

Expenses related to travel less than 100 miles or overnight travel may be deducted as an itemized deduction. A meeting of a reserve unit is considered a second place of business only if the meeting is held on a day on which you work at your regular job. Also, if you travel away from home overnight to attend a guard or reserve meeting, you can deduct travel expenses.

Plan Distributions. Distributions from IRA, 401(k), or 403(b) plans which were made after the date of the order or call to active duty and before the close of the active duty period are subject to special rules and

may not be subject to the 10% penalty tax on early distributions.

Such distributions are also eligible to be repaid to the plan if paid back within 2 years after active duty ends.

ROTC Students. Subsistence allowances paid to ROTC students participating in advanced training are not taxable. However, active duty pay – such as pay received during summer advanced camp – is taxable.

Joint Returns. Generally, joint returns must be signed by both spouses. If one spouse is overseas on military duty, there are some options for signing:

- One spouse can prepare the return, sign it, and send it to the other spouse to sign early enough so that it can be filed by the due date, or
- The spouse who expects to be overseas on the due date of the return can file Form 2848, Power of Attorney and Declaration of Representative, specifically designating that the spouse who remains in the United States may sign the return for the absent spouse.
- If the taxpayer is stationed in a combat zone, the spouse can sign without a Power of Attorney.

Extending Your Return. If you live in the US, you can receive an automatic 6-month extension to file your return by filing Form 4868. If you live outside the US, you may qualify for an automatic 2-month extension of time without filing Form 4868, and an additional 4-month extension may be requested by filing Form 4868 by June 15. You do not have to send in any payment of tax due when you extend your return, however, interest will be due on late payments.

Deferral of Tax Payment. Armed Forces members may qualify to defer payment of income tax that becomes due before or during military service. If you qualify, you will be allowed up to 180 days after termination or release from military service to pay the tax.

Moving Expenses. Special rules apply to active duty members of the Armed Forces and their surviving spouses who move because of a permanent change of station. Deductible expenses include unreimbursed costs of moving household goods and personal effects, travel, and certain costs of storing and insuring household goods and personal effects. For foreign moves, the deductible moving expenses are expanded to include the reasonable expenses of moving your household goods and personal effects to and from storage, and storing these items for part or all of the time the new job location remains your main job location.

Sale of Home. Qualifying taxpayers can exclude up to \$250,000 of gain (\$500,000 if married filing a joint return) on the sale of a main home. There are special rules if you sell due to a move to a new permanent duty station. Another special rule is available for suspending the test period for ownership and use for up to 10 years during the period you or your spouse serve on qualified official extended duty.

Transitioning Back to Civilian Life.

You may be able to deduct some costs you incur while looking for a new job. Expenses may include travel, resume preparation fees, and outplacement agency fees. Moving expenses may be deductible if your move is closely related to the start of work at a new job location.

Combat Zone Provisions

Extension of Deadlines. The deadline for filing tax returns, paying taxes, filing claims for refund, and taking certain other actions with the IRS, including making IRA contributions, is automatically extended if serving in a combat zone, or you have qualifying service outside of a combat zone, such as participating in a contingency operation. No penalties or interest will be imposed for failure to file a return or pay taxes during the extension period.



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Combat Pay Income Exclusion.

Pay received while a member of the US Armed forces serving in a combat zone can be excluded from income. If you serve in a combat zone for any part of one or more days during a particular month, you are entitled to an exclusion for that entire month.

The wages shown in box 1 of your W-2 should not include military pay excluded from income under the combat zone exclusion provisions. If it does, get a corrected Form W-2 from your finance office. Pay properly shown in Box 1 of Form W-2 may not be excluded under the combat pay rules.

Earned Income Credit. A special election can be made to include all your nontaxable combat pay in income to qualify for the earned income credit. If you are filing a joint return and both you and your spouse received nontaxable combat pay, you can each make your own election.

IRA Contributions. Combat pay is considered earned income for purposes of contributing to an IRA even though it is not included in taxable income.

IRS Audit and Collections Relief. Taxpayers who are serving in a combat zone are eligible for a suspension of IRS compliance actions, such as audits or enforced collections, until 180 days after the taxpayer has left the zone.

Decedent Provisions. Tax liability for the year of death and possibly for earlier years can be forgiven, or taxes refunded, if a member of the U.S. Armed Forces dies while in active service in a combat zone, from wounds, disease, or other injury received in a combat zone, or from wounds or injury incurred in a terrorist or military action.

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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