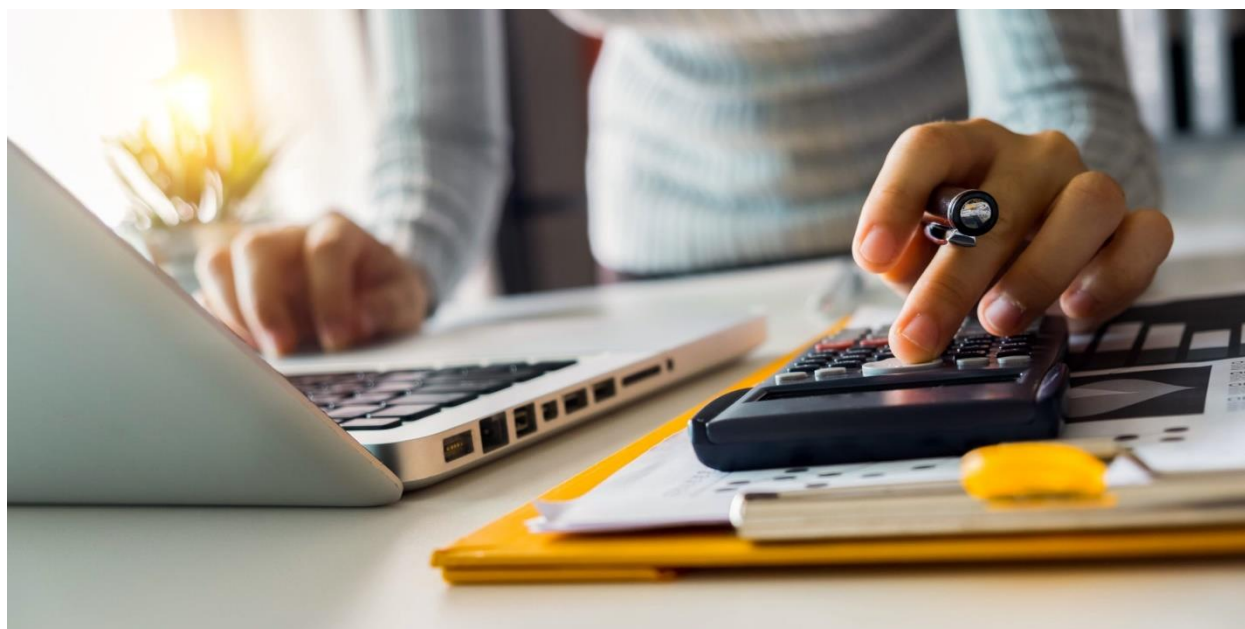


Four Tax Tips for Military Members



Taxes are confusing, and when your career involves several relocations, income earned in multiple states (and countries), and a variety of benefits that come from different sources, they can become even more complex. The good news is that serving in the military comes with a number of tax advantages. Once you know about them, preparing your taxes may feel a lot simpler.

1. Know what income is taxable.

While your income is generally taxable, money that you earned while serving in a combat zone is mostly excludable from your taxable income. Both enlisted servicemembers and warrant officers have no limitations on the amount of income that can be excluded; however, income earned by officers is limited to the maximum rate of enlisted pay plus imminent danger or hostile fire pay earned for each month in a combat zone.

Aside from basic pay and imminent danger or hostile fire pay, there are other types of compensation that are eligible for the Combat Zone Tax Exclusion:

- If you reenlisted or extended your service while serving in a combat zone, any bonuses earned are also excludable from your taxable income.
- If you sell any leave that is accrued while in a combat zone, the resulting income is excludable.
- If you are repaying student loans, you can exclude the portion of the repayment that is associated with the period of time you spent in a combat zone.

Note that the Combat Zone Tax Exclusion covers any income that was earned during the same month as your service in a combat zone; even if you were only present in the combat zone for a portion of the month.

2. Know where to file taxes.



Regardless of where you currently live or are stationed, active duty servicemembers file income taxes in their home residency state. This may be the location where you lived when you joined the military or another state if you previously changed your legal residence. The location where you currently reside and your home residency state may or may not be the same.

If you currently live in a state that collects income tax, but your state of residence does not collect income tax, the state where you live cannot enforce the payment of state taxes on your military income. However, if you receive income from other sources (e.g., a rental property), that income will need to be declared and taxes filed in the state in which it was earned.

The Military Spouse Residency Relief Act allows military spouses to use the same legal residence as the servicemember during any taxable year of their marriage regardless of where they reside, provided the spouse's location resulted from their servicemember's military orders.

3. Know that there are extensions available.

If you are serving in a combat zone during tax season, you have 180 days from your return from the combat zone (or from the last day of any continuous qualified hospitalization for an injury that resulted from service in the combat zone) to file your federal taxes. No interest or penalties will be charged during the extension period.

You may also qualify for a two-month extension on your federal taxes if your service is outside of the United States or Puerto Rico, even if you did not serve in a combat zone. However, if you owe any IRS payments, they will begin accruing interest on their original due date.

Note that while federal extensions are available to servicemembers, states may have other policies. Contact a tax expert to learn more about your home residency state's requirements.

4. Know how to handle DOD and VA benefits.

When a servicemember dies during active duty service, the Department of Defense provides their survivor(s) with a \$100,000 death gratuity to cover immediate expenses before other benefits become available. This money is tax-exempt for the survivor(s).

VA benefits, including disability compensation, pension payments paid to disabled veterans or their families, and GI Bill education benefits, are also tax-exempt and do not need to be reported as income when filing a tax return.

Note that military retirement pay is fully taxable.

Military OneSource offers free tax services to servicemembers and their families through [MilTax](#). You can contact a tax consultant by calling [800-342-9647](tel:800-342-9647) or use their tax preparation software to file your taxes. If you have questions about DOD or VA benefits, Navy Mutual's Education and Veterans Services team can help answer your questions. Our representatives can be reached at [888-298-4442](tel:888-298-4442) or education@navymutual.org.