

Do Veterans' Benefits and Military Retirement Pay Count as Income?



Tax season has people all over the country reviewing their finances and organizing their financial information ahead of this year's tax filing deadline. Tax season can be even more difficult for veterans because they have to document their veterans' benefits and retirement pay on top of everything else – mortgage interest, current employment, Social Security, childcare, and more. Adding service-related benefits to the mix can leave some veterans wondering whether they will owe more in taxes as a result of their service.

Are service-related benefits taxable?

The short answer is that it depends. Some monetary benefits that veterans receive are taxable and need to be reported as such. Others are tax exempt. For example, military retirement pay that is paid by the Department of Defense and based on length of service is taxable and must be reported as income. Veterans' benefits paid to veterans and their families by the Department of Veterans Affairs (VA), including disability compensation; death gratuities paid to survivors after September 10, 2001; grants for homes designed for wheelchair living; and grants for motor vehicles for veterans who lost their sight or the use of their limbs are not taxable and need not be reported as taxable income.

[According to the IRS](#), you do not need to include in your income any veterans' benefits paid under any law, regulation, or administrative practice administered by the VA. Therefore, the following VA payments to veterans and their families aren't taxable:

- Education, training, and subsistence allowances
- Disability compensation and pension payments for disabilities paid either to veterans or their families
- Grants for homes designed for wheelchair living
- Grants for motor vehicles for veterans who lost their sight or the use of their limbs

- Veterans' insurance proceeds and dividends paid either to veterans or their beneficiaries, including the proceeds of a veteran's endowment policy paid before death
- Interest on insurance dividends left on deposit with the VA
- Benefits under a dependent-care assistance program
- The death gratuity paid to a survivor of a member of the Armed Forces who died after September 10, 2001
- Payments made under the VA's compensated work therapy program
- Any bonus payment by a state or political subdivision because of service in a combat zone

Special Considerations

Military Retirement Pay: Military retirement pay is taxable by the federal government, but not by some states. If a veteran participates in the Survivor Benefit Plan, the amount that they pay into the program in premiums is excluded from their taxable income. Note that, if a military retiree also receives VA disability compensation based on a disability rating of less than 50%, a portion of the retiree's military pay is waived and replaced by the non-taxable VA payment. Military retirees with a disability rating of 50% or higher can receive both their full military retirement pay and VA disability compensation tax free. Certain veterans may also qualify for Concurrent Retirement and Disability Pay (CRDP) which allows them to receive both.

Pay to Military Medical Retirees: Military medical retirees who did not serve a full 20 years cannot receive both VA disability compensation and the Department of Defense's retirement pension at the same time. While eligible for a (taxable) retirement pension, most of these veterans opt to receive tax-free VA disability compensation instead. If a veteran receives retirement pension as a result of a combat-related injury or illness, the pension payment may not be taxable. Consult a tax adviser for more information about your financial situation.

Retroactive VA Disability Determinations: A veteran who retires and is later given a retroactive service-connected disability rating from the VA may be eligible for a tax refund equal to the VA disability entitlement amount for each year of the retroactive period. Veterans who receive a lump-sum disability severance payment and later receive VA disability benefits can exclude the full amount of the severance payment from their taxable income.

Are there times when a veteran's VA benefits qualify as taxable income?

VA benefits qualify as taxable income for the following purposes:

- **Applying for a mortgage:** Lenders can count VA benefits, including disability compensation, as income when determining whether to qualify a veteran for a mortgage.
- **Calculating income for child support and alimony:** VA benefits can be included when calculating child support and alimony payments, even if the VA benefit is the veteran's only source of income.
- **Calculating income for food stamps (SNAP):** Because SNAP eligibility is determined by a household's net income, VA benefits (as well as all other forms of taxable and tax-exempt income) are considered when calculating whether a household meets income limits set by law.



Service-related benefits can be complicated. Some veterans find it helpful to consult with a qualified tax adviser about their individual circumstances. Navy Mutual does not provide individual tax advice. However, Navy Mutual is a Veterans Service Organization, which means that our education team can answer your general questions about VA benefits, help you apply for or contest denied claims, and explain military disability compensation and education benefits to you. [Contact our Education and Veterans Services team](#) to learn more.