

## MQFP® Study Guide 1.8: Active-Duty Tax Issues

### Learning Objectives:

#### 1.8 Active-Duty Tax Issues

##### a. Identify the taxable nature of individual pays, allowances, and bonuses

Basic Pay amount is based on pay grade and time in service. Special Pay is for specific duties above and beyond regular work responsibilities i.e. Hazardous Duty Pay, Foreign Language Pay, etc. or as incentive for hard to fill positions, i.e. Dental Officer Retention Pay. Basic and Special Pay are federal and state taxable (in states that have income tax) with the exception of Combat Pay

Allowances include, Housing Allowance, Basic Allowance for Subsistence, Dislocation Allowance (for change of duty station expenses), Family Separation Allowance and Uniform Allowance (initial uniform allowance for officers and enlisted personnel, subsequent uniform allowance for enlisted only).

Allowances are federal and state tax free

Military bonus pay is offered as an incentive for military members in certain career fields to join the service or stay on active duty (versus leaving for work in private civilian sector). Examples are enlistment and reenlistment bonuses

##### **Exercise 1:** Taxable Income

List three examples of pays, allowances, or bonuses that are considered taxable income for active duty service members.

##### b. Determine where a service member and military spouse may pay state taxes based on SCRA, and what income can/must be attributed to which state

Per SCRA, Servicemember can keep home state of residence for state tax purposes if located in another state only for military service. Spouses can elect to keep own home state of residence for state tax purposes if located in another state only for service member's military service or they can elect to adopt service member's home state of residence. Non-military income earned in a state that is not the service members or spouses state of residence can still be taxed by that state

##### **Exercise 2:** State Tax Determination

Explain how the Servicemembers Civil Relief Act (SCRA) affects the state tax liability for service members and their spouses, and how income should be attributed to different states.

##### c. Recall the IRS rules with respect to claiming non-taxable pays as earned income for the purpose of calculating the earned income tax credit (EITC) and possible strategies to maximize the credit

IRS rules do not require servicemembers and their spouses to include non taxable Combat Pay to qualify for refundable Earned Income Tax Credit but do allow servicemembers and spouses to voluntarily include non taxable Combat Pay to qualify for or increase the amount of EITC allowed

##### **Exercise 3:** EITC and Non-Taxable Pays

Discuss the IRS rules regarding claiming non-taxable pays as earned income for the Earned Income Tax Credit (EITC) and suggest strategies to maximize the credit.

**d.** Describe the Foreign Earned Income Exclusion and its application to service members and family members

Income earned from civilian, (not military or US federal civilian ) employment in a foreign country is excluded from taxes as long as the servicemember and the spouse do not officially reside in the foreign country (only there for military service). Excluded annual income amount limit is \$112,000 (2022)

**Exercise 4: Foreign Earned Income Exclusion**

Describe the Foreign Earned Income Exclusion and how it applies to active-duty service members and their family members who earn income while overseas.

**e.** Identify the tax filing deadline extensions available to military personnel and their families in IRS Publication 3

Regular, non combat military employment - eligible for 6 month tax return filing extension. No extension of deadline for payment of taxes due

Assignment in combat zone - 180 day extension to file tax return **and** to pay taxes due with no interest or penalties. Extension begins from the last day present in a combat zone or the last day of hospitalization due to injuries sustained in a combat zone

**Exercise 5: Tax Filing Deadline Extensions**

List the tax filing deadline extensions available to military personnel and their families as specified in IRS Publication 3.

**f.** Describe how unreimbursed moving expenses can impact the tax return of a military family

Can claim unreimbursed moving expenses directly related to change of duty station as individual tax deduction. Moving expenses include costs for moving personal effects from one location to another and costs for travel from current location to new duty station (meals are not included as travel expense). Can claim mileage expense at current year IRS mileage rate

**Exercise 6: Unreimbursed Moving Expenses**

Explain how unreimbursed moving expenses can impact the tax return of a military family and any potential tax deductions related to these expenses.

**Quiz: (Multiple Choice)**

1. Which of the following is considered taxable income for active duty service members?

- a) Basic Allowance for Housing (BAH)
- b) Combat Zone Tax-Exempt Pay (CZTE)
- c) Hazardous Duty Pay
- d) Uniform Allowance

2. Under the Servicemembers Civil Relief Act (SCRA), where should a service member and military spouse pay state taxes if they maintain residency in different states due to military orders?

- a) The state where the service member is stationed
- b) The state where the military spouse is currently residing
- c) Both states proportionally based on the time spent in each state
- d) The state of the service member's home of record

3. True or False: Non-taxable pays, such as housing allowances and combat pay, cannot be counted as earned income when calculating the Earned Income Tax Credit (EITC).

- a) True
- b) False

4. The Foreign Earned Income Exclusion allows service members and family members to exclude a certain amount of foreign earned income from federal taxation. What is the maximum exclusion amount for 2023?

- a) \$105,900
- b) \$109,600
- c) \$114,100
- d) \$120,000

5. What is the tax filing deadline extension available to military personnel serving in a combat zone or a qualified hazardous duty area?

- a) Automatic two-month extension from the original due date
- b) Automatic four-month extension from the original due date
- c) Automatic six-month extension from the original due date

d) No extension; military personnel must file by the original due date

6. How can unreimbursed moving expenses impact the tax return of a military family?

- a) They may increase the tax liability of the military family.
- b) They can be fully deducted as itemized deductions on the tax return.
- c) They have no impact on the tax return, as they are considered non-taxable.
- d) They may reduce the Adjusted Gross Income (AGI) of the military family.

**References:**

- Servicemembers Civil Relief Act (SCRA), Legal Services Corporation:  
[https://www.lsc.gov/sites/default/files/images/LSC\\_pubs/SCRA.pdf](https://www.lsc.gov/sites/default/files/images/LSC_pubs/SCRA.pdf)

- Earned Income Tax Credit (EITC), Internal Revenue Service (IRS): <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit>

- Foreign Earned Income Exclusion, Internal Revenue Service (IRS):  
<https://www.irs.gov/individuals/international-taxpayers/foreign-earned-income-exclusion>

- Tax Information for Members of the U.S. Armed Forces, IRS Publication 3: <https://www.irs.gov/pub/irs-pdf/p3.pdf>

\*Answer Key can be found at: <https://mqfp.org/study-guides/8> \*