

MQFP® Study Guide 2.4: Reserve and Guard Tax Issues

Learning Objectives:

2.4 Reserve and Guard Tax Issues

a. Identify the allowable tax deductions related to service in the Guard or Reserve

Travel Expenses: Members of the Reserve or National Guard who travel more than 100 miles from home in connection with their service can deduct unreimbursed travel expenses such as lodging, meals (subject to limitations), and transportation.

Uniform Costs: Expenses for purchasing and maintaining uniforms that are not suitable for everyday use and are required for their duties may be tax-deductible.

Education Expenses: Certain unreimbursed expenses related to job training or education required by the Reserve or National Guard may be deductible.

Business Expenses: Other expenses related to the performance of duties, such as equipment, supplies, and other items, may also be deductible if not reimbursed by the military.

Deductions for Self-Employed Reservists and Guardsmen: Those who are self-employed may be able to deduct health insurance premiums, retirement plan contributions, and other eligible business expenses related to their service.

Exercise 1: Tax Deductions for Reserve and Guard Service

List and describe the allowable tax deductions that Reserve and Guard members may claim related to their service, including deductions for travel expenses, uniforms, training expenses, and other eligible items.

b. Explain the Qualified Reservist Distribution rules

Qualified Reservist Distributions (QRDs) pertain to specific provisions in the tax code that allow for penalty-free withdrawals from certain retirement accounts for eligible reservists and National Guard members. Here are the key rules:

Eligibility: To qualify for a QRD, the reservist must be called to active duty for a period of at least 180 days or for an indefinite period.

Types of Retirement Accounts: QRDs apply to various retirement accounts, such as Individual Retirement Accounts (IRAs) and employer-sponsored retirement plans like 401(k)s.

Penalty Exemption: Normally, early withdrawals from retirement accounts before the age of 59½ incur a 10% penalty. However, under QRD rules, these penalties are waived for qualified reservist distributions.

Income Tax Treatment: While the 10% early withdrawal penalty is waived, the distributed amount is still subject to income tax unless the funds are rolled over into another qualifying retirement account within the specified timeframe.

Timing: The QRD must be taken during the period of active duty or within a certain period following the end of active duty, typically within the year following the year of the completion of active duty.

Documentation: Reservists need to provide appropriate documentation to their retirement plan administrator or financial institution to prove their eligibility for QRDs. This might include orders or official documents confirming the call to active duty.

Maximum Distribution Amount: There may be a cap on the maximum amount eligible for penalty-free withdrawal under QRD rules. This limit varies depending on the type of retirement account and specific circumstances.

Exercise 2: Qualified Reservist Distribution Rules Explanation

Explain the rules and requirements for Qualified Reservist Distributions from retirement accounts, such as the Individual Retirement Account (IRA), that allow Reserve and Guard members to withdraw funds penalty-free for certain qualified purposes.

Quiz: (Multiple Choice)

1. True or False: Reserve and Guard members can deduct travel expenses to and from their drill locations as tax deductions.
 - a) True
 - b) False

2. What is a Qualified Reservist Distribution?
 - a) It is a distribution of funds from the Reserve or Guard member's military retirement account.
 - b) It is a distribution of funds from the Reserve or Guard member's IRA for qualified purposes.
 - c) It is a type of tax deduction available only to Reserve and Guard members.
 - d) It is a type of tax credit for Reserve and Guard members.

3. Which of the following expenses can Reserve and Guard members potentially deduct from their taxes?
 - a) Ordinary clothing expenses
 - b) Entertainment expenses during drill weekends
 - c) Training expenses required for their military duties
 - d) Personal vacation expenses while on active-duty orders

4. What is the purpose of the Qualified Reservist Distribution rules?
 - a) To encourage Reserve and Guard members to contribute more to their retirement accounts.

- b) To allow Reserve and Guard members to withdraw retirement funds without penalty for certain qualified purposes.
- c) To provide tax credits to Reserve and Guard members who serve in combat zones.
- d) To require Reserve and Guard members to withdraw funds from their retirement accounts after a certain age.

References:

- IRS Publication 3, Armed Forces' Tax Guide: <https://www.irs.gov/pub/irs-pdf/p3.pdf>
- IRS Retirement Topics - Exceptions to Tax on Early Distributions: <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-exceptions-to-tax-on-early-distributions>

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