

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

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

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

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

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

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

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

- 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/>