

## Hazardous Duty Pay: Federal & State Tax Breaks.

### **Combat Zone Exclusion**

If you are a member of the U.S. Armed Forces who serves in a combat zone (defined below), you can exclude certain pay from your income. This pay is generally referred to as "combat pay." You do not actually need to show the exclusion on your tax return because income that qualifies for the combat zone exclusion is not included in the wages reported on your Form W-2 in box #1. It is shown on the W-2 in box #12 and designated or coded as "Q" pay (Nontaxable combat pay). The month for which you receive the pay must be a month in which you either served in a combat zone or were hospitalized as a result of wounds, disease, or injury incurred while serving in the combat zone. You do not have to receive the excluded pay while you are in a combat zone, are hospitalized, or in the same year you served in a combat zone.

If you are an enlisted member, warrant officer, or commissioned warrant officer, you can exclude the following amounts from your income. (Other officer personnel are discussed under *Amount of Exclusion*, later.)

- Active duty pay earned in any month you served in a combat zone.
- Imminent danger/hostile fire pay.
- A reenlistment bonus if the voluntary extension or reenlistment occurs in a month you served in a combat zone.
- Pay for accrued leave earned in any month you served in a combat zone. The Department of Defense must determine that the unused leave was earned during that period.
- Pay received for duties as a member of the Armed Forces in clubs, messes, post and station theaters, and other nonappropriated fund activities. The pay must be earned in a month you served in a combat zone.
- Awards for suggestions, inventions, or scientific achievements you are entitled to because of a submission you made in a month you served in a combat zone.
- Student loan repayments. If the entire year of service required to earn the repayment was performed in a combat zone, the entire repayment made because of that year of service is excluded. If only part of that year of service was performed in a combat zone, only part of the repayment qualifies for exclusion. For example, if you served in a combat zone for 5 months, of your repayment qualifies for exclusion.

Retirement pay and pensions do not qualify for the combat zone exclusion. Additional detailed information on the subject can be found in the Armed Forces Tax Guide Publication 3 @ (<http://www.irs.gov/pub/irs-pdf/p3.pdf>).

**Partial (month) service.** If you serve in a combat zone for any part of one or more days during a particular month, you are entitled to exclusion for that entire month.

**Form W-2.** The wages shown in box 1 of your 2008 Form W-2 should not include military pay excluded from your income under the combat zone exclusion provisions. If it does, you will need to get a corrected Form W-2 from your finance office. You cannot exclude as combat pay any wages shown in box 1 of Form W-2.

### **Combat Zone**

An area usually becomes a combat zone and ceases to be a combat zone on the dates the President designates by Executive Order. The best source to find the listing of currently designated combat zones is in the current version of the Armed Forces Tax Guide Publication 3. (<http://www.irs.gov/pub/irs-pdf/p3.pdf>).

### **Amount of Exclusion.**

If you are an enlisted member, warrant officer, or commissioned warrant officer and you serve in a combat zone during any part of a month, you can excluded all of you military pay for that month. It should not be included in the wages reported on your Form W-2. You can also exclude military

pay earned while you were hospitalized as a result of wounds, disease, or injury incurred in the combat zone. If you are hospitalized, you cannot exclude any military pay received for any month of service that begins more than 2 years after the end of combat activities in the combat zone. Your hospitalization does not have to be in a combat zone.

If you are a commissioned officer (other than a commissioned warrant officer), you can exclude your pay according to the rules just discussed. However, the amount of your exclusion is limited to the highest rate of enlisted pay (plus imminent danger/hostile fire pay you received) for each month during any part of which you served in a combat zone or were hospitalized as a result of your service there.