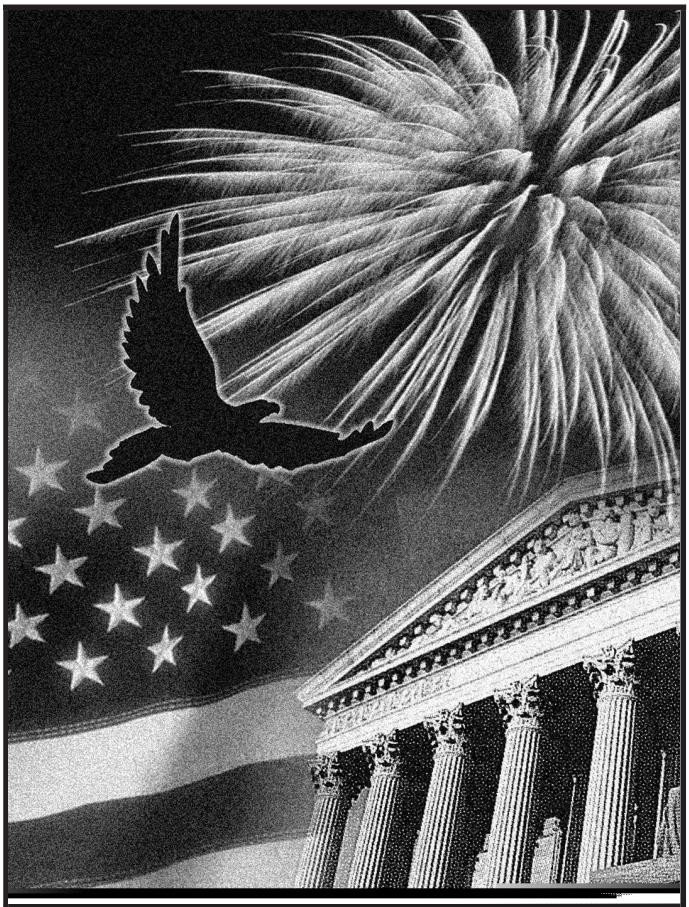
Department of the Treasury
Internal Revenue Service

Publication 3
Cat. No. 46072M

Armed Forces' Tax Guide

For use in preparing
2006 Returns



Get forms and other information faster and easier by:
Internet • www.irs.gov

Contents

What's New 2

Reminders 2

Introduction 2

Gross Income 3
- Foreign Source Income 4
- Community Property 5

Adjustments to Income 5
- Armed Forces Reservists 5
- Individual Retirement Arrangements 6
- Moving Expenses 7

Combat Zone Exclusion 8
- Combat Zone 8
- Serving in a Combat Zone 9
- Amount of Exclusion 10

Alien Status 10
- Resident Aliens 10
- Nonresident Aliens 11
- Dual-Status Aliens 11

Sale of Home 11
- Rules for Sales in 2006 11
- Sale of a Home Before May 7, 1997 12

Itemized Deductions 12
- Employee Business Expenses 12

Credits 14
- Earned Income Credit 14
- Child Tax Credit 17

Forgiveness of Decedent's Tax Liability 18
- Combat Zone Related Forgiveness 19
- Terrorist or Military Action Related Forgiveness 19
- Claims for Tax Forgiveness 19

Filing Returns 20
- Where To File 20
- When To File 21
- Signing Returns 21

Extension of Deadlines 22
- Service That Qualifies for an Extension of Deadline 22
- Length of Extension 23
- Actions for Which Deadlines Are Extended 24

Deferral of Payment 24

Maximum Rate of Interest 24

How To Get Tax Help 25

Index 26

- Expenses for business-related meals (generally limited to 50% of your unreimbursed cost), lodging, taxicabs, business telephone calls, tips, laundry, and dry cleaning while you are away from home on temporary duty or temporary additional duty, and
- Expenses of carrying out official business while on "No Cost" orders.

You cannot deduct any expenses for travel away from home if the temporary assignment in a single location is realistically expected to last (and does in fact last) for more than 1 year. This rule may not apply if you are participating in a federal crime investigation or prosecution. For more information, see Publication 463 and the Form 2106 instructions.

Transportation Expenses

These expenses include the ordinary and necessary costs of:

- Getting from one workplace to another when you are not away from home,
- Going to a business meeting away from your regular workplace, and
- Getting from your home to a temporary workplace when you have a regular place of work.

These expenses include the costs of transportation by air, bus, rail, taxi, and driving and maintaining your car. Transportation expenses incurred while traveling away from home are travel expenses. However, if you use your car while traveling away from home overnight, see the rules in chapter 4 of Publication 463 to figure your car expense deduction.

If you must go from one workplace to another while on duty (for example, as a courier or to attend meetings) without being away from home, your unreimbursed transportation expenses are deductible. However, the expenses of getting to and from your regular place of work (commuting) are not deductible.

Temporary work location. If you have one or more regular places of business away from your home and you commute to a temporary work location in the same trade or business, you can deduct the expenses of the daily round-trip transportation between your home and the temporary location.

Generally, if your employment at a work location is realistically expected to last (and does in fact last) for 1 year or less, the employment is temporary.

If your employment at a work location is realistically expected to last for more than 1 year or if there is no realistic expectation that the employment will last for 1 year or less, the employment is not temporary, regardless of whether it actually lasts for more than 1 year. If employment at a work location initially is realistically expected to last for 1 year or less, but at some later date the employment is realistically expected to last more than 1 year, that employment will be treated as temporary (unless there are facts and circumstances that would indicate otherwise) until your expectation changes.

If you do not have a regular place of business, but you ordinarily work in the metropolitan area where you live, you can deduct daily transportation expenses between your home and a temporary work site outside your metropolitan area. However, you cannot deduct daily transportation costs between your home and temporary work sites within your metropolitan area. These are nondeductible commuting costs.

Armed Forces reservists. A meeting of an Armed Forces reserve unit is a second place of business if the meeting is held on a day on which you work at your regular job. You can deduct the expense of getting from one workplace to the other. You usually cannot deduct the expense if the reserve meeting is held on a day on which you do not work at your regular job. In this case, your transportation generally is a nondeductible commuting expense. However, you can deduct your transportation expenses if the location of the meeting is temporary and you have one or more regular places of work.

If you ordinarily work in a particular metropolitan area but not at any specific location and the reserve meeting is held at a temporary location outside that metropolitan area, you can deduct your transportation expenses. If you travel away from home overnight to attend a guard or reserve meeting, you can deduct your travel expenses. See *Armed Forces Reservists* under *Adjustments to Income*, earlier.

Uniforms

You usually cannot deduct the expenses for uniform cost and upkeep. Generally, you must wear uniforms when on duty and you are allowed to wear them when off duty.

If military regulations prohibit you from wearing certain uniforms when off duty, you can deduct the cost and upkeep of the uniforms, but you must reduce your expenses by any allowance or reimbursement you receive.

Expenses for the cost and upkeep of the following articles are deductible.

- Military battle dress uniforms and utility uniforms that you cannot wear when off duty.
- Articles not replacing regular clothing, including insignia of rank, corps devices, epaulets, aiguillettes, and swords.
- Reservists' uniforms if you can wear the uniform only while performing duties as a reservist.

Professional Dues

You can deduct dues paid to professional societies directly related to your military position. However, you cannot deduct amounts paid to an officers' club or a noncommissioned officers' club.

Example. Lieutenant Margaret Allen, an electrical engineer at Maxwell Air Force Base, can deduct professional dues paid to the American Society of Electrical Engineers.

Educational Expenses

You can deduct the costs of qualifying work-related education. This is education that meets at least one of the following two tests.

- The education is required by your employer or the law to keep your present salary, status, or job. The required education must serve a bona fide business purpose of your employer.
- The education maintains or improves skills needed in your present work.

You can deduct the costs of qualifying education.

However, even if the education meets one or both of the above tests, it is not qualifying education if it:

- Is needed to meet the minimum educational requirements of your present trade or business, or
- Is part of a program of study that will qualify you for a new trade or business.

You can deduct the expenses for qualifying work-related education even if the education could lead to a degree.

Example 1. Lieutenant Colonel Mason has a degree in financial management and is in charge of base finances at her post of duty. She took an advanced finance course. She already meets the minimum qualifications for her job. By taking the course, she is improving skills in her current position. The course does not qualify her for a new trade or business. She can deduct educational expenses that are more than the educational allowance she received.

Example 2. Major Williams worked in the military base legal office as a legal intern. He was placed in excess leave status by his employer to attend law school. He paid all his educational expenses and was not reimbursed. After obtaining his law degree, he passed the state bar exam and worked as a judge advocate. His educational expenses are not deductible because the law degree qualified him for a new trade or business, even though the education maintained and improved his skills in his work.

Travel to obtain education. If your work-related education qualifies, you can deduct the costs of travel, including meals (subject to the 50% limit), and lodging, if the main purpose of the trip is to obtain the education.

You cannot deduct the cost of travel that is itself a form of education, even if it is directly related to your duties in your work or business.

Transportation for education. If your work-related education qualifies, you can deduct the costs of transportation to obtain that education. However, you cannot deduct the cost of services provided in kind, such as base-provided transportation to or from class. Transportation expenses include the actual costs of bus, subway, cab, or other fares, as well as the costs of using your car.

If you need more information on educational expenses, see Publication 970.

Repayments

If you had to repay to your employer an amount that you included in your income in an earlier year, you may be able to deduct the repaid amount from your income for the year in which you repaid it.

Repayment of $3,000 or less. If the amount you repaid was $3,000 or less, deduct it from your income in the year you repaid it. If you reported it as wages, deduct it as a miscellaneous itemized deduction on Schedule A (Form 1040), line 22.

Repayment over $3,000. If the amount you repaid was more than $3,000, see *Repayments* in Publication 525.

Credits

After you have figured your taxable income and tax liability, you can determine if you are entitled to any tax credits. This publication discusses the earned income credit and the child tax credit. For information on other credits, see your tax form instructions.

Earned Income Credit

The earned income credit (EIC) is a credit for certain persons who work. The credit reduces the amount of tax you owe (if any). It may also give you a refund.

If you claim the EIC and it is later disallowed, you may have to complete an additional form if you want to claim the credit in a following year. See chapter 5 in Publication 596 for more information, including how to claim the EIC after disallowance.

Persons With a Qualifying Child

If you have a qualifying child (defined later), you must meet all the following rules to claim the earned income credit.

1. You must have earned income (defined later).
2. Your earned income and adjusted gross income (AGI) must each be less than:
   a. $36,348 ($38,348 for married filing jointly) if you have two or more qualifying children, or
   b. $32,001 ($34,001 for married filing jointly) if you have one qualifying child.
3. Your filing status cannot be married filing separately.
4. You cannot be a qualifying child of another person. If filing a joint return, your spouse also cannot be a qualifying child of another person.

5. Your qualifying child cannot be used by more than one person to claim the credit. If your qualifying child is the qualifying child of more than one person, you must be the person who can treat the child as a qualifying child. For details, see *Rule 9* in Publication 596.
6. You cannot file Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion, to exclude income earned in foreign countries, or to deduct or exclude a foreign housing amount. See Publication 54 for more information about these forms.
7. You must be a U.S. citizen or resident alien all year unless:
   a. You are married to a U.S. citizen or a resident alien, and
   b. You choose to be treated as a resident alien for the entire year. If you need more information about making this choice, see *Resident Aliens*, earlier.
8. Your investment income must be $2,800 or less during the year. For most people, investment income is taxable interest and dividends, tax-exempt interest, and capital gain net income.
9. You must have a valid social security number for yourself, your spouse (if filing a joint return), and any qualifying child.

How to report. If you meet all these rules, fill out Schedule EIC and attach it to either Form 1040 or Form 1040A.

Qualifying child. Your child is a qualifying child if your child meets three tests. The three tests are:

1. Relationship,
2. Age, and
3. Residency.

Relationship test. To be your qualifying child, a child must be your:

- Son, daughter, stepchild, eligible foster child, or a descendant of any of them (for example, your grandchild), or
- Brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew).

An adopted child is always treated as your own child. The term "adopted child" includes a child who was lawfully placed with you for legal adoption.

For the EIC, a person is your eligible foster child if the child is placed with you by an authorized placement agency or by judgement, decree, or other order of any court of competent jurisdiction. An authorized placement agency includes a state or local government agency. It also includes a tax-exempt organization licensed by a state. In addition, it includes an Indian tribal government or an organization authorized by an Indian tribal government to place Indian children.

If your child was married at the end of the year, he or she does not meet the relationship test unless either of these two situations applies to you:

1. You can claim the child's exemption, or
2. The reason you cannot claim the child's exemption is that you gave that right to your child's other parent under the *Special rule for divorced or separated parents,* described in Publication 596.

Age test. Your child must be:

1. Under age 19 at the end of 2006,
2. Under age 24 at the end of 2006 and a full-time student, or
3. Permanently and totally disabled at any time during 2006, regardless of age.

A full-time student is a student who is enrolled for the number of hours or courses the school considers to be full-time attendance.

To qualify as a student, your child must be, during some part of each of any 5 calendar months during the calendar year:

1. A full-time student at a school that has a regular teaching staff, course of study, and regular student body at the school, or
2. A student taking a full-time, on-farm training course given by a school described in (1), or a state, county, or local government.

The 5 calendar months need not be consecutive.

You may be able to treat your child as a student for each month of the enrollment period, in 2005 or 2006, he or she was unable to attend class because of Hurricane Katrina, Rita or Wilma. For details, see Publication 596.

A school can be an elementary school, junior or senior high school, college, university, or technical, trade, or mechanical school. However, on-the-job training courses, correspondence schools, and schools offering courses only through the Internet do not count as schools for the EIC.

Students who work in co-op jobs in private industry as a part of a school's regular course of classroom and practical training are considered full-time students.

Your child is permanently and totally disabled if both of the following apply.

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition.
2. A doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death.

Residency test. Your child must have lived with you in the United States for more than half of 2006.

The United States includes the 50 states and the District of Columbia. It does not include Puerto Rico or U.S. possessions such as Guam.

U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States during that duty period for purposes of the EIC. Extended active duty means you are called or ordered to duty for an indefinite period or for a period of more than 90 days. Once you begin serving your extended active duty, you are still considered to have been on extended active duty even if you do not serve more than 90 days.

A child who was born or died in 2006 is treated as having lived with you for all of 2006 if your home was the child's home the entire time he or she was alive in 2006.

Count time that you or your child is away from home on a temporary absence due to a special circumstance as time lived with you.

A kidnapped child is treated as living with you for more than half of the year if the child lived with you for more than half the part of the year before the date of the kidnapping. The child must be presumed by law enforcement authorities to have been kidnapped by someone who is not a member of your family or your child's family. This treatment applies for all years until the child is returned. However, the last year this treatment can apply is the earlier of:

1. The year there is a determination that the child is dead, or
2. The year the child would have reached age 18.

If your qualifying child has been kidnapped and meets these requirements, enter "KC," instead of a number, on line 6 of Schedule EIC.

Social security number. Your qualifying child must have a valid social security number (SSN) unless the child was born and died in 2006. You cannot claim the EIC on the basis of a qualifying child if:

1. Your qualifying child's SSN is missing from your tax return or is incorrect,
2. Your qualifying child's social security card says "Not valid for employment" and was issued for use in getting a federally funded benefit, or
3. Instead of an SSN, your qualifying child has
   a. An individual taxpayer identification number (ITIN), which is issued to a noncitizen who cannot get an SSN, or
   b. An adoption taxpayer identification number (ATIN), which is issued to adopting parents who cannot get an SSN for the child being adopted until the adoption is final.

If you have two qualifying children and only one has a valid SSN, you can claim the EIC only on the basis of that child.

More information. For more information, see Publication 596.

Persons Without a Qualifying Child

If you do not have a qualifying child, you can take the credit if you meet all the following rules.

1. You must have earned income (defined later).
2. Your earned income and adjusted gross income must each be less than $12,120 ($14,120 for married filing jointly).
3. Your filing status cannot be married filing separately.
4. You cannot be a qualifying child of another person. If filing a joint return, your spouse also cannot be a qualifying child of another person.
5. You must be at least age 25 but under age 65 at the end of the year. If filing a joint return, either you or your spouse must be at least age 25 but under age 65 at the end of the year.
6. You cannot be claimed as a dependent by anyone else on that person's return. If filing a joint return, your spouse also cannot be claimed as a dependent by anyone else on that person's return.
7. Your main home must be in the United States for more than half the year. (U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States.)
8. You cannot file Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion.
9. You must be a U.S. citizen or resident alien all year unless:
   a. You are married to a U.S. citizen or a resident alien, and
   b. You choose to be treated as a resident alien for the entire year.
10. Your investment income must be $2,800 or less during the year. For most people, investment income is taxable interest and dividends, tax-exempt interest, and capital gain net income.
11. You (and your spouse, if filing a joint return) must have a valid social security number.

How to report. If you meet all of these rules, fill out the EIC worksheet in your tax form instructions to figure the amount of your credit.

More information. For more information, see Publication 596.

Earned Income

For purposes of the earned income credit, earned income includes the following.

- Wages, salaries, tips, and other taxable employee pay.
- Net earnings from self-employment.

- Gross income received as a statutory employee.
- Nontaxable combat pay if you elect to include it in earned income. See *Nontaxable combat pay election*, later.

For purposes of the earned income credit, earned income does not include:

- Basic pay or special, bonus, or other incentive pay that is subject to the combat zone exclusion (unless you make the nontaxable combat pay election described later),
- Basic Allowance for Housing (BAH),
- Basic Allowance for Subsistence (BAS),
- Any other nontaxable employee compensation,
- Interest and dividends,
- Social security and railroad retirement payments,
- Certain workfare payments,
- Pensions or annuities,
- Veterans' benefits (including VA rehabilitation payments),
- Workers' compensation,
- Unemployment compensation, or
- Alimony and child support.

Nontaxable combat pay election. You can elect to have your nontaxable combat pay included in earned income for the earned income credit. If you make the election, you must include in earned income all nontaxable combat pay you received. If you are filing a joint return and both you and your spouse received nontaxable combat pay, you can each make your own election. The amount of your nontaxable combat pay should be shown on your Form W-2 in box 12 with code Q. Electing to include nontaxable combat pay in earned income may increase or decrease your EIC.

Figure the credit with and without your nontaxable combat pay before making the election. Whether the election increases or decreases your EIC depends on your total earned income, filing status, and number of qualifying children. If your earned income without your combat pay is less than the amount shown below for your number of children, you may benefit from electing to include your nontaxable combat pay in earned income and you should figure the credit both ways. If your earned income without your combat pay is equal to or more than these amounts, you will not benefit from including your combat pay in your earned income.

- $5,350 if you have no qualifying children.
- $8,050 if you have one qualifying child.
- $11,300 if you have two qualifying children.

The following examples illustrate the effect of including nontaxable combat pay in earned income for the EIC.

Example 1—election increases the EIC. George and Janice are married and will file a joint return. They have one qualifying child. George was in the Army and earned $11,000 ($5,000 taxable wages + $6,000 nontaxable combat pay). Janice worked part of the year and earned $2,000. Their taxable earned income and AGI are both $7,000. George and Janice qualify for the earned income credit and fill out the Earned Income Credit (EIC) Worksheet in the Form 1040A instructions and Schedule EIC.

When they complete the worksheet without adding the nontaxable combat pay to their earned income, they find their credit to be $2,389. When they complete the EIC worksheet with the nontaxable combat pay added to their earned income, they find their credit to be $2,747. Because making the election will increase their EIC, they elect to add the nontaxable combat pay to their earned income for the EIC. They enter $2,747 on line 40a of their Form 1040A and enter the amount of their nontaxable combat pay on line 40b.

Example 2—election does not increase the EIC. The facts are the same as in Example 1 except George had nontaxable combat pay of $14,000. When George and Janice add their nontaxable combat pay to their earned income, they find their credit to be $2,074. Because the credit they can get if they do not add the nontaxable combat pay to their earned income is $2,389, they decide not to make the election. They enter $2,389 on line 40a of their Form 1040A.

IRS Will Figure Your Credit for You

There are certain instructions you must follow before the IRS can figure the credit for you. See Publication 967, The IRS Will Figure Your Tax.

Advance Earned Income Credit

If you expect to qualify for the earned income credit for 2007, you can choose to get part of the credit in advance by giving a completed 2007 Form W-5 to your appropriate finance office. The credit will be included regularly in your pay. To get this advance payment, you must have a qualifying child. For details, see Form W-5 and its instructions

If you received advance earned income credit payments in 2006, you must file either Form 1040 or Form 1040A for 2006 to report the payments.

Child Tax Credit

The child tax credit is a credit that may reduce your tax by as much as $1,000 for each of your qualifying children.

The additional child tax credit is a credit you may be able to take if you are not able to claim the full amount of the child tax credit.

The child tax credit is not the same as the credit for child and dependent care expenses. See Publication 503 for information on the credit for child and dependent care expenses.

Qualifying Child

A qualifying child for purposes of the child tax credit is a child who:

1. Is your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your grandchild),
2. Was under age 17 at the end of 2006,
3. Did not provide over half of his or her own support for 2006,
4. Lived with you for more than half of 2006 (see *Exceptions to time lived with you* below), and
5. Was a U.S. citizen, a U.S. national, or a resident of the United States. If the child was adopted, see *Adopted child* below.

For each qualifying child you must either check the box on Form 1040 or Form 1040A, line 6c, column (4), or complete Form 8901 (if the child is not your dependent).

Exceptions to time lived with you. A child is considered to have lived with you for all of 2006 if the child was born or died in 2006 and your home was this child's home for the entire time he or she was alive. Temporary absences for special circumstances, such as for school, vacation, medical care, military service, or detention in a juvenile facility, count as time lived at home.

There are also exceptions for kidnapped children and children of divorced or separated parents. For details, see Publication 501.

Qualifying child of more than one person. A special rule applies if your qualifying child is the qualifying child of more than one person. For details, see Publication 501.

Adopted child. An adopted child is always treated as your own child. An adopted child includes a child lawfully placed with you for legal adoption.

If you are a U.S. citizen or U.S. national and your adopted child lived with you as a member of your household all year, that child meets condition (5) above to be a qualifying child for the child tax credit.

Amount of Credit

The maximum amount you can claim for the credit is $1,000 for each qualifying child.

Limits on the credit. You must reduce your child tax credit if either (1) or (2), below, applies.

1. The amount on Form 1040, line 46, or Form 1040A, line 28, is less than the credit. If the amount is zero, you cannot take this credit because there is no tax to reduce. However, you may be able to take the additional child tax credit. See *Additional Child Tax Credit*, later.
2. Your modified adjusted gross income (AGI) is more than the amount shown below for your filing status.
   - Married filing jointly — $110,000.
   - Single, head of household, or qualifying widow(er) — $75,000.
   - Married filing separately — $55,000.

Modified AGI. For purposes of the child tax credit, your modified AGI is the amount on Form 1040, line 38, or Form 1040A, line 22, plus the following amounts that may apply to you.

- Any amount excluded from income because of the exclusion of income from Puerto Rico.
- Any amount on line 45 or line 50 of Form 2555, Foreign Earned Income.
- Any amount on line 18 of Form 2555-EZ, Foreign Earned Income Exclusion.
- Any amount on line 15 of Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa.

If you do not have any of the above, your modified AGI is the same as your AGI.

Claiming the Credit

To claim the child tax credit, you must file Form 1040 or Form 1040A. For more information on the child tax credit, see the instructions for Form 1040 or Form 1040A.

Additional Child Tax Credit

This credit is for certain individuals who get less than the full amount of the child tax credit. The additional child tax credit may give you a refund even if you do not owe any tax.

For more information, see the instructions for Form 1040 or Form 1040A, and Form 8812, Additional Child Tax Credit.

Forgiveness of Decedent's Tax Liability

Tax liability can be forgiven, or if already paid, refunded, if a member of the U.S. Armed Forces dies:

- While in active service in a combat zone,
- From wounds, disease, or other injury received in a combat zone, or
- From wounds or injury incurred in a terrorist or military action.

Tax for the year of death and possibly for earlier years can be forgiven.

In addition, any unpaid tax liability at the date of death may be forgiven. Any tax liability that is forgiven does not have to be paid.

If a member of the Armed Forces dies, a surviving spouse or personal representative handles duties such as filing any tax returns and claims for refund of withheld or estimated tax. A personal representative can be an executor, administrator, or anyone who is in charge of the decedent's assets.

Joint returns. Only the decedent's part of the joint income tax liability is eligible for the refund or tax forgiveness. To determine the decedent's part, the person filing the claim must:

1. Figure the income tax for which the decedent would have been liable if a separate return had been filed,
2. Figure the income tax for which the spouse would have been liable if a separate return had been filed, and
3. Multiply the joint tax liability by a fraction. The top number of the fraction is the amount in (1), above. The bottom number of the fraction is the total of (1) and (2).

The amount in (3) is the decedent's tax liability that is eligible for the refund or tax forgiveness. If you are unable to complete this process, you should attach a statement of all income and deductions, indicating the part that belongs to each spouse. The IRS will determine the amount eligible for forgiveness.

Residents of community property states. If the decedent's legal residence was in a community property state and the spouse reported half the military pay on a separate return, the spouse can get a refund of taxes paid on his or her share of the pay for the years involved. The forgiveness of unpaid tax on the military pay also would apply to the half owed by the spouse for the years involved.

Combat Zone Related Forgiveness

Tax liability is forgiven for an individual who:

- Is a member of the U.S. Armed Forces at death, and
- Dies while in active service in a combat zone, or at any place from wounds, disease, or injury incurred while in active service in a combat zone.

The forgiveness applies to:

- The tax year death occurred, and
- Any earlier tax year ending on or after the first day the member served in a combat zone in active service.

In addition, any unpaid taxes for years ending before the member began service in a combat zone will be forgiven and any of those taxes that are paid after the date of death will be refunded.

The beneficiary or trustee of the estate of a deceased service member does not have to pay tax on any amount received that would have been included (had the service member not died) in the deceased member's gross income for the year of death.

Service outside combat zone. These rules also apply to a member of the Armed Forces serving outside the combat zone if the service:

- Was in direct support of military operations in the zone, and
- Qualified the member for special military pay for duty subject to hostile fire or imminent danger.

For a description of combat zone, see *Combat Zone,* earlier.

Missing status. The date of death for a member of the Armed Forces who was in a missing status (missing in action or prisoner of war) is the date his or her name is removed from missing status for military pay purposes. This is true even if death actually occurred earlier.

Terrorist or Military Action Related Forgiveness

Tax liability is forgiven for an individual who:

- Is a member of the U.S. Armed Forces at death, and
- Dies from wounds or injury incurred while a member of the U.S. Armed Forces in a terrorist or military action.

The forgiveness applies to:

- The tax year death occurred, and
- Any earlier tax year in the period beginning with the year before the year in which the wounds or injury occurred.

A terrorist or military action is any terrorist activity primarily directed against the United States or its allies or any military action involving the U.S. Armed Forces and resulting from violence or aggression against the United States or its allies.

Any multinational force in which the United States participates is considered an ally of the United States.

The beneficiary or trustee of the estate of a deceased service member does not have to pay tax on any amount received that would have been included (had the service member not died) in the deceased member's gross income for the year of death.

Example. Army Private John Kane died in 2006 of wounds incurred in a terrorist attack in 2005. His income tax liability is forgiven for all tax years from 2004 through 2006.

Claims for Tax Forgiveness

Returns reflecting forgiven tax and claims for refund of forgiven tax that has already been paid must be identified. Usually, Form 1040X is used to claim the refund.

How to Claim Forgiveness or Refund

If the decedent's tax liability is forgiven, the personal representative should take the following steps.

- File Form 1040 if a tax return has not been filed for the tax year. Form W-2 must accompany the return.
- File Form 1040X if a tax return has been filed. A separate Form 1040X must be filed for each year in question.
- Properly identify the return as explained next.

All returns and claims must be identified by writing "Enduring Freedom—KIA," "Kosovo Operation—KIA," "Desert Storm—KIA," or "Former Yugoslavia—KIA" in bold letters on the top of page 1 of the return or claim. On Forms 1040 and 1040X, the phrase "Enduring Freedom—KIA," "Kosovo Operation—KIA," "Desert Storm—KIA," or "Former Yugoslavia—KIA" must be written on the line for total tax. If the individual was killed in a terrorist action, write "KITA" on the front of the return and on the line for total tax.

An attachment that includes a computation of the decedent's tax liability before any amount is forgiven and the amount that is to be forgiven should accompany any return or claim. For joint returns, see *Joint returns*, earlier.

Necessary documents. The following documents must accompany all returns and claims for refund.

- Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer, and

filed before they are due are considered filed on the due date, usually April 15.

If death occurred in a combat zone or from wounds, disease, or injury incurred in a combat zone, the deadline for filing a claim for credit or refund is extended using the rules discussed later under *Extension of Deadlines.*

Where to File Return or Claim for Refund

These returns and claims must be filed at one of the following addresses.

U.S. Postal Service. If you use the U.S. Postal Service, file these returns and claims at the following address.

Internal Revenue Service
P.O. Box 4053
Woburn, MA 01888

Designated private delivery service. Private delivery services cannot deliver items to P.O. boxes. If you use a private delivery service, file these returns and claims at the following address.

Internal Revenue Service
Stop 661
Andover, MA 05501

Designated private delivery services include only the following.

- DHL Express (DHL

nts must accompany all returns and claims for refund.

Designated private deliv