



DEFENSE FINANCE AND ACCOUNTING SERVICE

Retired and Annuitant Pay
P.O. Box 7130 – Retired Pay
London, KY 40742-7130
www.dfas.mil/retiredmilitary.html

To Whom It May Concern:

Thank you for contacting the Defense Finance and Accounting Service. We are committed to providing continuing support to the families and beneficiaries of our retired members. The following information is sent in reply to your inquiry regarding your military retired pay account, specifically the taxability of your payments under the Strickland Decision.

According to a ruling from the Internal Revenue Service (IRS), military retirees may receive the tax benefit derived from retroactive awards of Department of Veterans Affairs (VA) disability compensation. When a retiree receives an initial award, or a retroactive increase in disability compensation from the VA, the retroactive portion of the compensation may be excluded from the member's taxable retired pay. The portion of military retired pay that is reduced due to receipt of VA disability compensation is referred to as the "VA Waiver."

For initial awards, the retroactive portion is the disability compensation entitlement from the effective date shown on the VA award letter through the day before the reduction of retired pay.

For increases in awards, the retroactive portion is the difference between the increased award and the amounts by which retired pay had been reduced. This includes payments from the effective date of the increased award, as shown on the VA award letter, through the day before the reduction of retired pay. The amount you exclude may not exceed your monthly taxable retired military pay for any given month.

If your retired pay was reduced after the effective date of the award, you may exclude the retroactive portion when you file your annual federal income tax return. We suggest that you attach copies of the VA award letter(s), along with your Form 1099-R, to your tax return to substantiate your entitlement to the exclusion. In addition, it may benefit you to file amended tax returns for any previous years in which retroactive disability compensation was awarded. Consult the IRS to determine the years you may file amended returns.

You may reference IRS Ruling 78-161, known as the Strickland Decision, when contacting your local IRS office. They will assist you in obtaining any tax benefit due.

We thank you for your service to our country. If you have any further questions, you can contact one of our customer service representatives at 800-321-1080 or 216-522-5955, between 7:00 a.m. and 7:30 p.m., Eastern Standard Time, Monday through Friday, or write to us at the address above.

Sincerely,

Retired and Annuitant Pay