

# MS 236 VOLUNTEER FEDERAL INCOME TAX

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Responsible Office: OCFO/VPS

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Issuance Memo

Attachments

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## ATTACHMENTS

Attachment A Chart of Posts' Taxable Allowances

Attachment B Application to Allot or Withdrawal from Readjustment Allowance

Attachment C Privacy Act Waiver - Financial Information

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## 1.0 PURPOSE

This manual section sets out policies and guidelines for Volunteers and Trainees (V/T) for filing federal income tax returns.

For more detailed information on completing federal income tax returns, refer to the current Federal Income Tax Guide for Peace Corps Trainees, Volunteers, and Former Volunteers, which the Office of Volunteer & PSC Financial Services (CFO/VPS) updates and distributes annually.

## **2.0 FEDERAL INCOME TAX TREATMENT OF VOLUNTEER ALLOWANCES**

### **2.1 Allowances subject to federal income tax:**

- (a) Volunteer Living Allowance (Discretionary category only);
- (b) Readjustment Allowance;
- (c) Annual Leave Allowance;
- (d) Trainee Walk-Around Allowance; and
- (e) Special Leave Allowance.

### **2.2 Allowances that are not taxable:**

- (a) The Settling-in Allowance; and
- (b) Allowances connected with travel away from post. Such allowances include Travel (en route) Allowance, Administrative/Medical Hold, Medevac Daily Allowances, Emergency Leave Allowance, Authorized Extraordinary Travel Allowance, and Transportation and Daily Allowances provided to a current Volunteer to permit him or her to assist at a staging in the United States or as a trainer in a training program, at the request of Peace Corps.

## **2.3 Types of Taxable Income**

### **2.3.1 Readjustment Allowance**

The Readjustment Allowance is considered fully taxable in the year that it is earned, not the year the payment of readjustment allowance is received.

### **2.3.2 Living Allowance**

Country Directors are authorized to apportion the Volunteer Living Allowance among the living allowance categories set out in MS 221 Volunteer Allowances. Only the portion of the living allowance related to the discretionary items category is subject to federal income tax. The percentage of discretionary items in the Living Allowance varies worldwide, as the Volunteer Living Allowances and their apportionments differ from post to post, and are based on the individual country economy.

### **2.3.3 Leave Allowances**

One hundred percent of annual Leave Allowance; Trainee Walk-Around (whether stateside, in country, or third country); and Special Leave Allowance are taxable. See MS 221, Volunteer Allowances, for definitions and policies regarding the above-mentioned allowances.

## **2.4 Post's Role in Providing Volunteers with Federal Income Tax Information**

At the beginning and completion of Volunteer service, and when the Living Allowance is adjusted, the Country Director will tell the Volunteers which portion of the Living Allowance is subject to federal income tax.

The Country Director will also supply each Volunteer with the following:

- (a) Federal Income Tax Form 1040;
- (b) Instructions for Tax Form 1040;
- (c) Peace Corps issued W-2 Form;
- (d) Peace Corps annual Tax Guide; and
- (e) Chart of Taxable Allowances.

Items (a) through (d) above will be sent to the Country Director's attention at post by the CFO/VPS by January 31. These items should be distributed to the Volunteers as soon as they are received by the post. Item (e), Chart of Post's Taxable Allowances, is to be created at post and distributed along with items (a) through (d). The chart must include the monthly Living, Walk-around, Leave, and Special Leave (when applicable) allowance amounts in U.S. Dollars; the period each allowance covers; the region in which the Volunteer resides (rural, small town, etc.); rate (per day, per month, etc.); and the taxable portion. See Attachment A.

### **2.5 Post's Role in Notifying CFO/VPS of the Taxable Portion of the Volunteer Living Allowance**

At the end of each calendar year, the Country Director will electronically send a copy of the Chart of Posts' Taxable Allowances (see Attachment A) to CFO/VPS to notify Headquarters of the taxable portion of the Living Allowance and other allowances paid to Volunteers during that year. This notification is critical as CFO/VPS will post this information on the Peace Corps website for access by Privacy Act Waiver designees and returned Peace Corps Volunteers who were active during the year, but were not at post when the year ended.

## **3.0 IRS TAX FORMS**

### **3.1 IRS Tax Form W-2**

CFO/VPS will issue an IRS W-2 form for each Trainee, Volunteer, or Returned Volunteer who was active at any part of the tax year. The form will show amounts earned for the Readjustment Allowance. The W-2s will be sent in paper form to post by January 31. W-2 forms for Volunteers who leave the post between the time the forms are mailed from Peace Corps Headquarters and the time they arrive at post should be mailed back to CFO/VPS with an explanation for the return. CFO/VPS will forward those W-2 forms to the RPCV's home of record.

### **3.2 Third Party W-2 Issuance**

CFO/VPS will issue a duplicate copy of the Form W-2 for any active Trainee or Volunteer to an official designee. A Volunteer may select only one designee to receive this duplicate copy by filling out form PC-CFO/VPS-128.4 Privacy Act Waiver - Financial Information. The signed form must be received by CFO/VPS by November 30, in order for the designee to receive a duplicate copy of the W-2 for that tax year. No duplicate W-2s will be mailed to a third party unless a signed copy of the Privacy Act Waiver - Financial Information is on file with CFO/VPS. If a Volunteer wishes to change or cancel a previously designated person, a new form or a signed notice requesting that the designee be eliminated is required. If the address of the designee also changes, a new form to authorize the change in mailing address is also necessary.

## **4.0 USE OF READJUSTMENT ALLOWANCE FOR SINGLE PAYMENT OF INCOME TAX**

### **4.1 Policy**

Country Directors may approve Volunteer requests for cash withdrawals of up to \$350 from the Readjustment Allowance for payment of federal income tax. Withdrawals of more than \$350 require authorization from CFO/VPS.

### **4.2 Procedures**

#### **4.2.1 Volunteer Request**

A Volunteer requesting a withdrawal from his or her Readjustment Allowance account for a one-time payment of federal income tax should submit Form PC-10, Application to Allot or Withdraw from Readjustment Allowance together with the signed original of the tax return (Form 1040) to the Country Director.

#### **4.2.2 Processing and Charging the Withdrawal**

If the payment is less than \$350, the Country Director will issue payment from the post imprest fund and charge the withdrawal to the Readjustment Allowance account 11X6016 in the post's financial system. If the payment is over \$350, the PC-10 form must be sent to CFO/VPS and will be processed by check payable to the Internal Revenue Service or EFT to a U.S. bank account. If a check is the method of payment, CFO/VPS will mail the check to the Volunteer's Privacy Act Waiver designee or to the post directly. CFO/VPS will not mail the check directly to the IRS.

#### **4.2.3 Paying the Internal Revenue Service**

The Country Director will mail the Volunteer's federal 1040 income tax return with the check by air pouch to the appropriate office of the Internal Revenue Service, as indicated by the Volunteer. **DO NOT SEND THE TAX RETURN OR PAYMENT TO CFO/VPS.**

## **5.0 USE OF READJUSTMENT ALLOWANCE FOR MONTHLY INCOME TAX WITHHOLDING**

Volunteers may also request monthly deductions from the Readjustment Allowance for federal tax withholding. A Volunteer requesting a recurring monthly tax withholding should submit IRS Form W-4 Employee's Withholding Allowance Certificate to CFO/VPS. The W-4 form must specify an amount between \$15 and \$100 per month; a percentage withholding will not be accepted. Each month CFO/VPS will withhold the designated amount from the Readjustment Allowance earned by the Volunteer. This withholding will be reflected on the Volunteer's Statement of Earnings and the W-2 form.

## **6.0 EFFECTIVE DATE**

The effective date is the date of issuance.