

Date: Tuesday, 14 August 2001 08:18 MT
To: DFASIN/AC-MP.AIG
From: DFASIN/BWRITER
Subject: CSB and CZTE REDUX #8

Guidance in regards to the Career Service Bonus (CSB) and combat zone tax exclusion (CZTE) has finally been released. This message is provided to publish that guidance and to assist the field in handling inquiries regarding the CSB and when it is/is not tax exempt.

The determining factor in deciding whether the CSB payment will receive a combat zone tax exclusion is the "effective date of election", the date the election becomes irrevocable. This is the date that the member has fully met all criteria for authorization and payment of the CSB. The criteria are as follows:

- a) Member has a DIEMS date on or after August 1, 1986;
- b) Is currently on active duty;
- c) Has completed 15 years of active duty service;
- d) Qualifies under current Service regulations for retention to 20 years of active duty service.
- e) Has elected to switch to the REDUX retirement plan and receive a \$30,000 CSB.

A member should be notified on or after reaching 14 years 6 months of active duty service, and has until the 15 year anniversary date to decide about electing the CSB and switching to the REDUX retirement plan, or staying with the HIGH-3 retirement plan. Regardless of when notified, each member is authorized up to six months to make the decision. But the 15 year anniversary date comes into play as far as making the decision "irrevocable". Prior to the 15 year anniversary date, the member can change the election as many times as necessary, based on his/her personal situation. The decision becomes effective and irrevocable on the 15 year anniversary date. The DD Form 2839 on file at that time becomes the member's permanent, effective and irrevocable decision, and the "effective date of election" will be the 15 year anniversary date..

The situation is greatly different for a member who has already reached the 15 year anniversary date. Since the 15 year anniversary date has already been reached, the member's initial application becomes the effective, irrevocable decision. Although the member still has up to six months to make the decision, the first form turned in becomes the permanent, effective irrevocable decision, and the "effective date of election" becomes the date the member signs that initial DD Form 2839 application form.

As further clarification, a member is considered tax exempt for an entire calendar month during any portion of which, to include a portion of a single day, the member was in a combat zone. For the CSB, the CZTE will apply if the member is/was serving in a combat zone during any portion of the month the CSB election becomes effective and irrevocable. As this applies to the CSB and the "effective date of election", the following examples are provided:

- 1) Member is in a combat zone on September 1st, leaves the zone on September 15th, the effective date of election for the CSB is September 22nd, the CSB will be tax exempt.
- 2) Member's effective date of election is October 8th, arrives in the combat zone on the 13th, the CSB will be tax exempt.

- 3) Member turns in the DD Form 2839 on November 29th, is in the combat zone on November 29th, leaves the zone on November 30th, member's effective date of election is December 1st, the CSB is taxable.

The following charts are provided to cover the various scenarios centering around the CSB, the 15 year anniversary date, and a combat zone tax exclusion. It should provide the field and Central Site with appropriate guidance and assist in answering inquiries from our members. In all cases, the determining factor is the member's "election effective date". There are two situations: those who make an election to receive the CSB on or before the 15 year anniversary date, and those who make their election after reaching their 15 year anniversary date. "In zone" implies that the member was in a combat zone at any point during a single calendar month that the "effective date of election" occurred, not necessarily on the specific calendar date that the status occurred.

The first situation is a member who makes an election, but has not yet reached the 15 year anniversary date. For these members, the effective date of election becomes the 15 year anniversary date. The following chart applies to these members.

MEMBER'S STATUS ON ELECTION DATE	STATUS ON 15 YEAR ANNIVERSARY DATE	STATUS ON DATE PAYMENT ISSUED	CZTE STATUS OF PAYMENT
Not in zone, and prior to 15 years	Not in zone (Note 1)	Not in zone	Not exempt
In zone, and prior to 15 years	Not in zone (Note 1)	Not in zone	Not exempt
In zone, and prior to 15 years	In zone (Note 1)	Not in zone	Exempt (Note 2) (Note 5)
In zone, and prior to 15 years	Not in zone (Note 1)	In zone	Not exempt (Note 3)
In zone, and prior to 15 years	In zone (Note 1)	In zone	Exempt (Note 4) (Note 5)
Not in zone, and prior to 15 years	In zone (Note 1)	Not in zone	Exempt (Note 2) (Note 5)
Not in zone, and prior to 15 years	In zone (Note 1)	In zone	Exempt (Note 4) (Note 5)
Not in zone, and prior to 15 years	Not in zone (Note 1)	In zone	Not exempt (Note 3) (Note 5)

NOTES: 1. The 15 year anniversary date becomes the member's "effective date of election", the determining factor

for the combat zone tax exclusion (CZTE).

2. Only the Career Status Bonus (CSB) is tax exempt. Regular pay is not exempt.

3. Regular pay is tax exempt, but the CSB payment is not.

4. Both regular pay and the CSB payment are tax exempt.

5. An officer's total exemption from all pay, both regular pay and the CSB, cannot exceed an amount equal

to the highest rate of pay payable to any enlisted member.

The second situation is a member who reaches the 15 year anniversary date, but hasn't made an election. Since the member has passed the 15 year anniversary date, the "effective date of election" becomes the date the initial DD Form 2839 is signed and turned in. The following chart applies to these members.

MEMBER'S STATUS ON ELECTION DATE	STATUS ON 15 YEAR ANNIVERSARY DATE	STATUS ON DATE PAYMENT ISSUED	CZTE STATUS OF PAYMENT
Not in the zone, and after 15 years (Note 1)	Not in the zone	Not in the zone	Not exempt
In zone, and after 15 years (Note 1)	Not in zone	Not in zone	Exempt (Note 2) (Note 5)
In zone, and after 15 years (Note 1)	In zone	Not in zone	Exempt (Note 2) (Note 5)
In zone, and after 15 years (Note 1)	Not in zone	In zone	Exempt (Note 4) (Note 5)
In zone, and after 15 years (Note 1)	In zone	In zone	Exempt (Note 4) (Note 5)
Not in zone, and after 15 years (Note 1)	In the zone	Not in the zone	Not exempt
Not in zone, and after 15 years (Note 1)	In the zone	In the zone	Not exempt (Note 3) (Note 5)
Not in zone, and after 15 years (Note 1)	Not in the zone	In the zone	Not exempt (Note 3) (Note 5)

- NOTES:
1. Since member has passed the 15 year anniversary date, the "effective date of election" is the date the member signs and turns in the DD Form 2839 application form. The date the member applies becomes the member's "effective date of election", the determining factor for the combat zone tax exclusion (CZTE).
 2. Only the Career Status Bonus (CSB) is tax exempt. Regular pay is not exempt.
 3. Regular pay is tax exempt, but the CSB payment is not.
 4. Both regular pay and the CSB payment are tax exempt.
 5. An officer's total exemption from all pay, both regular pay and the CSB, cannot exceed an amount equal to the highest rate of pay payable to any enlisted member.