



TAX EXEMPT INCOME

Combat Zone Exclusion

If you are a member of the U.S. Armed Forces who serves in a combat zone (defined later), you can exclude certain pay from your income. You do not have to receive the pay while you are in a combat zone, are hospitalized, or in the same year you served in a combat zone. However, your entitlement to the pay must have fully accrued in a month during which you served in the combat zone or were hospitalized as a result of wounds, disease, or injury incurred while serving in the combat zone. Enlisted personnel, warrant officers, and commissioned warrant officers can exclude the following amounts from their income. (Other officer personnel are discussed 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 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 misappropriated 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 payment 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.

Retirement pay and pensions do not qualify for the combat zone exclusion.

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 an exclusion for that entire month.

Combat Zone

A combat zone is any area the President of the United States designates by Executive Order as an area in which the U.S. Armed Forces are engaging or have engaged in combat. An area usually becomes a combat zone and ceases to be a combat zone on the dates the President designates by Executive Order.

Afghanistan area: By Executive Order No. 13239, Afghanistan (and airspace above) was designated as a combat zone beginning September 19, 2001.

The Kosovo area: By Executive Order No. 13199 and Public Law 106-21, the following locations (including air space above) were designated as combat zone and a qualified hazardous duty area beginning March 24, 1999.

- Federal Republic of Yugoslavia (Serbia/Montenegro).
- Albania
- The Adriatic Sea
- The Ionian Sea—north of the 39th parallel.

Persian Gulf area: By Executive Order No. 12744, the following locations (and airspace above) were designated as a combat zone beginning January 17, 1991.

- The Persian Gulf.
- The Red Sea.
- The Gulf of Oman.
- The part of the Arabian Sea that is north of 10 degrees north latitude and west of 68 degrees east longitude.
- The Gulf of Aden.
- The total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates.

Qualified hazardous duty area: Beginning November 21, 1995, a qualified hazardous duty area in the former Yugoslavia is treated as if it were a combat zone. The qualified hazardous duty area includes:

- Bosnia and Herzegovina.
- Croatia.
- Macedonia.

Note: Members of the Armed Forces deployed overseas away from their permanent duty station in support of operations in a qualified hazardous duty, but outside the qualified hazardous duty area, are treated as if they are in a combat zone solely for the purposes of the extension of deadlines. These personnel are not entitled to other combat zone tax benefits. However, if they satisfy additional requirements, they may be entitled to full combat zone tax benefits.

Serving in a Combat Zone

Service in a combat zone includes any periods you are absent from duty because of sickness, wounds, or leave. If, as a result of serving in a combat zone, a person becomes a prisoner of war or is missing in action, that person is considered to be serving in the combat zone so long as he or she keeps that status for military pay purposes.

Note. You are considered to be serving in a combat zone if you are either assigned on official temporary duty to a combat zone or you qualify for hostile fire/imminent danger pay while in a combat zone.

Qualifying service outside combat zone: Military service outside a combat zone is considered to be performed in a combat zone if:

- The service is in direct support of military operations in the combat zone, and
- The service qualifies you for special military pay for duty subject to hostile fire or imminent danger.
- Military pay received for this service will qualify for the combat zone exclusion if the other requirements are met and the pay is verifiable by reference to military pay records.

Nonqualifying presence in combat zone: None of the following types of military service qualify as service in a combat zone:

- Presence in a combat zone while on leave from a duty station located outside the combat zone.
- Passage over or through a combat zone during a trip between two points that are outside a combat zone.
- Presence in a combat zone solely for your personal convenience.

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, all of your military pay for that month is excluded from your income. You also can exclude military pay earned while you are hospitalized as a result of wounds, disease, or injury incurred in the combat zone. The exclusion of your military pay while you are hospitalized does not apply to any month that begins more than two years after the end of combat activities in that combat zone. Your hospitalization does not have to be in the combat zone. If you are a commissioned officer (other than a commissioned warrant officer), you may 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.

Hospitalized while serving in the combat zone: If you are hospitalized while serving in the combat zone, the wound, disease, or injury causing the hospitalization will be presumed to have been incurred while serving in the combat zone unless there is clear evidence to the contrary.

Example: You are hospitalized for a specific disease in a combat zone where you have been serving for three weeks, and the disease for which you are hospitalized has an incubation period of two to four weeks. The disease is presumed to have been incurred while you were serving in the combat zone. On the other hand, if the incubation period of the disease is one year, the disease would not have been incurred while you were serving in the combat zone.

Hospitalized after leaving the combat zone: In some cases, the wound, disease, or injury may have been incurred while you were serving in the combat zone, even though you were not hospitalized until after you left.

Example: You were hospitalized for a specific disease three weeks after you left the combat zone. The incubation period of the disease is from two to four weeks. The disease is presumed to have been incurred while serving in the combat zone.

Form W-2: The wages shown in box 1 of your 2011 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 a combat pay any wages shown in box 1 of Form W-2.

This information was provided by the Internal Revenue Service at www.irs.gov. If you have additional questions, please contact your local Legal Assistance Office.

Information provided is general in nature and does not constitute legal advice. Consult a civilian attorney or legal assistance attorney for specific legal advice for your particular situation.