



## Combat Zone Exclusions

In recognition of their service to America, all servicemen and women are provided an exclusion from income for the military pay they earn while in a combat zone, and automatic extensions of time for filing a return or paying a tax. This tax relief, as detailed more fully below, applies to military and support personnel serving in combat zones such as the Arabian Peninsula area (this includes Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar and the United Arab Emirates), the Afghanistan area, and the Kosovo area.

**Military pay exclusion.** In general, members of the U.S. Armed Forces (including activated reservists, National Guard and Coast Guard members, but not those in the merchant marine) who serve in a combat zone can exclude certain pay from income. Amounts excluded from income are not subject to federal income tax.

*Non-officers.* Enlisted personnel, warrant officers and commissioned warrant officers can exclude:

- active duty pay earned in any month served in a combat zone.
- imminent danger/hostile fire pay and military pay earned while hospitalized as a result of wounds, disease or injury incurred in the combat zone.
- a reenlistment bonus if the voluntary extension or reenlistment occurs in a month served in a combat zone, even if the bonus is paid after the recipient is out of the combat zone.
- pay for accrued leave earned in any month served in a combat zone. (The Department of Defense must determine that 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 non-appropriated fund activities earned in a month served in a combat zone.
- awards received for suggestions, inventions or scientific achievements because of a submission made in a month in a combat zone.

*Officers.* The exclusions listed above also apply to commissioned officers (other than commissioned warrant officers), but are limited to the highest rate of enlisted pay (plus imminent danger/hostile fire pay received) for each month during any part of which officers served in a combat zone. For 2009, the most a commissioned officer can earn tax-free each month is \$7,368.30, based on the highest monthly enlisted pay of \$7,143.30 (the basic pay of the Master Chief Petty Officer of the Navy, the Chief Master Sergeant of the Air Force, the Sergeant Majors of the Army and Marine Corps or the Senior Enlisted Advisor of the JCS), plus \$225 hostile fire or imminent danger pay.

*Outside combat zone.* U.S. Armed Forces personnel serving outside the combat zone are entitled to the military pay exclusion only if they are serving in direct support of military operations in the combat zone for which they receive hostile fire/imminent danger pay.

*Reporting & payroll tax.* You do not need to claim the combat zone exclusion on your tax return because this type of income is excluded normally from an Armed Forces member's wages. The wages shown in box 1 of the Armed Forces member's Form W-2 should not include military pay excluded from income under the combat zone exclusion provisions. If it does, the Armed Forces member will need to get a corrected Form W-2 from his or her finance office. You cannot exclude as combat pay any wages shown in box 1 of Form W-2. It is also important to note that combat zone pay is subject to Social Security and Medicare taxes and will be reported on Form W-2 in the boxes marked "Social security wages" and "Medicare wages and tips."

*Effect on earned income tax credit.* Earned income for purposes of the earned income tax credit (EITC) includes compensation only if it is includible in gross income. Consequently, excluded combat pay, the Basic Allowance for Housing (BAH) and the Basic Allowance for Subsistence (BAS) all are removed from the definition of earned income for EITC purposes. Accordingly, a service member's income may fall within the qualifying range to claim the EITC. However,

if the combat pay exclusion leaves the service member with no earned income, he cannot claim the EITC. However, you may elect to include your excluded combat pay in earned income for purposes of the EITC. Please call if you would like help in determining whether making this election would be to your benefit.

*Effect on refundable child credit.* Individuals with adjusted gross income below certain levels may claim a child tax credit of \$1,000 per qualifying child under 17. The credit is refundable to the extent of 15% of earned income above \$3,000 in 2009 and 2010. (Taxpayers with three or more children may have a larger refundable credit based on the excess of social security taxes over the EITC.) When determining earned income for purposes of the refundable child credit, excluded combat pay is treated as earned income.

**Extension of deadlines.** IRS will automatically extend the deadline for performing most tax actions required to be performed on or after the date a combat zone is designated, or the date an eligible person began serving in that combat zone, whichever is later. The deadline extensions apply not only to Armed Forces members but also to individuals serving in the combat zone in support of the U.S. Armed Forces, such as Red Cross and Merchant Marine personnel, accredited correspondents, and civilian personnel acting under the direction of the U.S. Armed Forces in support of those forces. In addition, U.S. Armed Forces members who perform military service in an area outside the combat zone qualify for the suspension of time provisions if their service is in direct support of military operations in the combat zone, and they receive special pay for duty subject to hostile fire or imminent danger as certified by the Department of Defense. Members of the U.S. Armed Forces serving as part of a contingency operation or in an area that becomes part of a contingency operation are also eligible for extension of deadlines. The period during which an individual is in a missing status is counted as part of the period of service in a combat zone or contingency operation.

The time-period suspension applies to the following acts:

- filing of any income, estate, gift, employment, or excise tax return;
- paying of any income, estate, gift, employment or excise tax;
- filing a claim for a credit or refund;
- allowance of a credit or refund;
- filing suit for a credit or refund;
- notice or demand for payment of tax;
- assessment, collection, or suit on a tax liability; and
- filing a Tax Court petition for redetermination or review.

The deadline extensions apply to all schedules and forms that are filed as attachments to an income tax return. Thus, for instance, if a child care provider took care of the children of a service person in his or her home in the U.S. and the service person was thus required to file a Schedule H, Household Employment Taxes, as an attachment to his or her income tax return to report the employment taxes on wages paid to the child care provider, the deadline extensions apply to the filing of the Schedule H.

The suspension period also is disregarded in calculating the amount of any credit or refund.

The suspension of time extends for 180 days beyond the period of service in the combat zone, plus time in missing-in-action status and time in continuous hospitalization outside the U.S. and up to five years of hospitalization within the U.S. resulting from injuries received in the combat zone. In addition to the 180 days, the time to perform acts also is extended by the number of days that were left in which to take action when the taxpayer entered the combat zone.

Spouses of individuals who served in a combat zone are generally entitled to the same deadline extension, with two exceptions. First, the extension does not apply to a spouse for any period the qualifying individual is hospitalized in the U.S. for injuries incurred in a combat zone. Second, the deadline extensions for a spouse do not apply for any tax year beginning more than two years after the date of the termination of the combat zone designation. A spouse does not have to file a joint tax return in order to benefit from the deadline extensions. The deadline extensions apply to both spouses whether joint or separate returns are filed.

The individual income tax return of a dependent child of a parent serving in a combat zone also qualifies for the same deadline extension. When filing the child's individual income tax return resulting from a deadline extension, the words

“COMBAT ZONE” should be written in red at the top of the return. However, a child who may be entitled to a refund of tax may want to file his or her individual income tax return and obtain the refund without regard to the extension.

*Filing returns for combat zone participants.* You can choose to file your return before the end of your extension period. If you are acting on behalf of someone serving in a combat zone and you do not have a power of attorney from that person specifying that you can handle federal tax matters, the IRS will accept a general power of attorney or other statement signed by that person that authorizes you to act on his or her behalf. A copy must be attached to the tax return. If it is not possible for the spouse of someone serving in a combat zone to obtain that person's signature on a joint return, power of attorney form, or other signed authorization to act on his or her behalf, the IRS will accept a written statement explaining that the husband or wife is serving in a combat zone. The statement must be signed by the spouse filing the tax return and attached to the return.

*Reservists may get deferral for back taxes.* A reservist called to active duty but not in a combat zone may still qualify to defer the payment of back taxes. To qualify, the reservist must be serving his or her initial period of service, and the reservist must show that his or her ability to pay the back taxes has been materially impaired as a result of going into military service. The deferral applies to taxes that fall due before or during military service, and extends the payment deadline to six months (180 days) after the military service ends. No interest penalty accrues during the deferral period. The deferral is not automatic. The reservist must apply for the deferral. When applying, the reservist must prove both an inability to pay the tax and that this inability resulted from military service. The reservist must also have received a notice of tax due, or be on an installment agreement with the IRS, before applying for the deferral.

**Informing IRS about special status.** Taxpayers covered by the relief provisions discussed above should write “COMBAT ZONE” and the deployment date in red at the top of their tax returns. Covered taxpayers who receive a notice from the IRS regarding a collection or examination matter should return the notice to the IRS with the words “COMBAT ZONE” and the deployment date in red at the top of the notice and on the envelope so the IRS can suspend the action. Taxpayers may prevent issuance of these notices by notifying IRS that they are serving in a combat zone.

You may contact IRS via a special e-mail address ([combatzone@irs.gov](mailto:combatzone@irs.gov)) that is intended for taxpayers in a combat zone to send questions specifically related to filing and payment issues and to update their combat zone status in order to qualify for relief provisions.