

## INFORMATION PAPER

SUBJECT: Tax Benefits of Serving in a Combat Zone or Qualified Hazardous Duty Area

1. PURPOSE. To provide an overview of the tax benefits of serving in a Combat Zone or Qualified Hazardous Duty Area.
2. BOTTOM LINE. A service member who serves in a Combat Zone or in a Qualified Hazardous Duty Area is eligible to exclude certain compensation from his or her income, and is eligible for an extension of time to file a tax return and to pay any taxes due.
3. REFERENCE. IRS Publication 3, Armed Forces' Tax Guide, 2005
4. DISCUSSION.

a. **What is a Combat Zone (CZ) or Qualified Hazardous Duty Area (QHDA)?** A CZ is an area that 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. A QHDA is an area that Congress designates by legislation as an area in which the Armed Forces have engaged in combat or could engage in combat.

b. **What are the current CZs and QHDAs?** There are three current CZs: Afghanistan area; Kosovo area; and Persian Gulf area. The Afghanistan area includes Afghanistan and the airspace above it. The Kosovo area includes the following locations and the air space above them: Federal Republic of Yugoslavia (Serbia/Montenegro); Albania; the Adriatic Sea; and the Ionian Sea, north of the 39<sup>th</sup> parallel (including all of the airspace in connection with the Kosovo operation). The Persian Gulf area includes the following locations and the airspace above them: 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; and the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates. The current QHDA includes Bosnia and Herzegovina, Croatia, and Macedonia.

c. **What are the benefits of serving in a CZ or QHDA?** There are two benefits: exclusion of compensation and extension of time to file a tax return. Enlisted soldiers may exclude from gross income all compensation received during the months spent in a CZ/QHDA. Commissioned officers may exclude up to the highest rate of basic pay for the most senior enlisted member of the Armed Forces, plus the amount of hostile fire or imminent danger pay to an officer for the month. For 2002, commissioned officers may exclude up to \$5,533 for each month during any part of which the officer spends in a CZ/QHDA. If a soldier spends only part of any month in the CZ/QHDA, compensation for that entire month is eligible for exclusion. The soldier's W-2 should reflect automatic exclusion of this pay from gross income. The deadline to file a tax return or to pay any tax

due is extended for 180 days from when the soldier leaves the CZ/QHDA or leaves the hospital from an injury sustained in the CZ/QHDA. The deadline is further extended for an additional day for every day that the soldier was in a CZ/QHDA during the tax filing season (1 January to 15 April). No penalties or interest will be imposed for failure to file a return or to pay taxes during the extension period.

d. **Do you have to serve in a CZ or QHDA to receive these benefits?** No, military service outside a CZ/QHDA is considered by the IRS to be performed in a CZ/QHDA if the service is in direct support of military operations in a CZ/QHDA, and the service qualifies the service member for hostile fire or imminent danger pay. Both the income exclusion and tax return filing extension benefits apply to such service in direct support of a CZ/QHDA. For example, the following countries were certified by the Department of Defense in December 2001 for CZ benefits due to their direct support of military operations in the Afghanistan area CZ: Pakistan, Tajikistan, Jordan, Kyrgystan, and Uzbekistan. Soldiers deployed overseas away from their permanent duty stations in support of operations in a CZ/QHDA, but outside the CZ/QHDA, receive tax return filing extensions only. These service members do not receive other CZ benefits, such as income exclusion, because they are not eligible for hostile fire or imminent danger pay.

e. **Do these benefits apply to a soldier's spouse?** The extension of time to file applies to a soldier's spouse unless it is more than two years after the combat activities in the CZ have ended, or the qualifying soldier is hospitalized in the United States for injuries sustained in a CZ. The exclusion of income does not apply to a soldier's spouse.

f. **Can I file a return on behalf of my deployed spouse?** Yes, you can file a tax return on behalf of a spouse deployed to a CZ/QHDA whether or not you have a power of attorney (POA). Please see the tax center for assistance if you do not have a POA. If the soldier is not your spouse, you can still file on his or her behalf if you have a general POA that specifically mentions the power to file tax returns or a special POA to file tax returns. Please see your legal assistance office for POA assistance.

g. **Must I use the CZ extension?** No, you may choose to file your return before the end of the extension period. This option is especially recommended for soldiers who anticipate receiving a tax refund.

5. **CONCLUSION.** A service member who serves in a Combat Zone or in a Qualified Hazardous Duty Area is eligible to exclude certain compensation from his or her income, and is eligible for an extension of time to file a tax return and to pay any taxes due. For additional information about these and other tax benefits, please see your servicing legal assistance office or tax center.

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DATE: 17 NOV 05