

# Making the Most Out of Your Pay and Allowances: Military Income and Tax-Free Benefits

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*I am proud to be paying taxes in the United States; the only thing is, I could be just as proud for half the money.*<sup>1</sup>

## I. Introduction

So you did not win the \$1.5 billion dollar *Powerball* drawing this year; considering your odds were one in 292,201,338, it really should not be all that surprising.<sup>2</sup> While now you may not be able to afford that Mansion in Beverly Hills, or the *Gulfstream* private jet you have always wanted, the good news is that the tax-free benefits of your military service are almost as good as hitting the jackpot. Having an understanding of these benefits will help leverage them during tax season and when conducting basic wealth management. Taking full advantage of military tax-free benefits enables servicemembers to make informed decisions about their finances, investments, and career path. It might also leave a few extra dollars in the bank account for next week's *Powerball* drawing.

No one likes paying taxes on their hard-earned money. This is especially true when that money was earned by those who volunteer to place their lives on the line in service to their country. In recognition of this service and sacrifice, Congress has built certain deductions, exemptions, and credits into the tax code to take care of those who take care of America.<sup>3</sup> This article is intended as a guide for servicemembers, their families, and those professionals tasked with providing tax and financial planning advice to the military community so that they might fully avail themselves of these significant tax-free benefits.

This article provides a basic overview of how income taxes are calculated and highlights the considerable tax breaks

that servicemembers receive through non-taxable pay and allowances. The article then examines the combat-zone tax exclusion and combat-zone savings opportunities, the extension of tax filing deadlines, the inclusion of combat pay for purposes of the Earned Income Tax Credit, the exclusion of certain capital gains, and the tax deferments available under the Servicemembers Civil Relief Act.<sup>4</sup> The article then focuses on the many tax-free education benefits available to servicemembers, veterans, and their family members. Finally, the article addresses how qualifying spouses and dependents of deceased servicemembers and veterans are taken care of through tax-free stipends and education benefits.

## II. Military Income Tax "101"

The prevailing wisdom is that taxes are complicated.<sup>5</sup> While one does not need to be a genius or an expert on the tax code to conduct personal financial planning, it is helpful to have a basic understanding of how taxes are calculated to know if any expense item, deductible, or tax credit are missing come tax time.<sup>6</sup>

### A. Computing Tax Liability

There are several steps that must be undertaken to determine a taxpayer's income tax liability. The good news is that not all income is taxable. An individual's taxable income is determined by first calculating gross income.<sup>7</sup> Gross income generally "means all income from whatever

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<sup>1</sup> Arthur Godfrey, *Tax Quotes*, IRS.GOV (Jan. 11, 2016), <https://www.irs.gov/uac/Tax-Quotes>. The original quotation published in the October 1951 edition of *The Reader's Digest*.

<sup>2</sup> *Powerball*, VA. ST. LOTTERY, <https://www.valottery.com/gamesandmore/powerball/> (last visited Oct. 20, 2016).

<sup>3</sup> *Special Tax Breaks for Military Members*, MILITARY.COM, <http://www.military.com/money/personal-finance/taxes/special-tax-breaks-for-military-members.html> (last visited Oct. 20, 2016).

<sup>4</sup> 50 U.S.C.A. § 4000 (West 2015).

<sup>5</sup> In fact world-renowned physicist Albert Einstein is famously quoted as saying, "[t]he hardest thing in the world to understand is income taxes. *The Hardest Thing in the World to Understand is Income Taxes*, QUOTE INVESTIGATOR (Mar. 7, 2011), <http://quoteinvestigator.com/2011/03/07/einstein-income-taxes/>. Albert Einstein reportedly said this to his longtime friend and income tax preparer, Mr. Leo Mattersdorf, sometime before his death in 1955. *Id.* Mr. Mattersdorf later recounted this conversation in a 1963 letter to *Time Magazine*. *Id.*

<sup>6</sup> It is important to stay organized and keep good records throughout the year. When filing your taxes, ensure to have copies of all Form W-2, Wage & Tax Statements; all Form W-2, Travel/Miscellaneous Tax Statements; Form 1095-C, Employer Provided Health Insurance Offer & Coverage; receipts for expensive and unreimbursed medical and dental bills; records of charitable donations; records of purchases, sales, and improvements to real estate; annual tax statements for all investments and Individual Retirement Accounts (IRA), and a copy of the previous year's income tax return.

<sup>7</sup> BLOOMBERG BNA, 2015 FEDERAL TAX GUIDE 1 (2014).

source derived.”<sup>8</sup> Examples of gross income include wages for services rendered to include commissions, tips, and any fringe benefits.<sup>9</sup> Gross income can also include profits derived from business activities and gains realized from property sales, as well as interest income and rents.<sup>10</sup> Other examples of gross income can include royalty payments, dividends, alimony payments, and income from life insurance and annuities.<sup>11</sup> Finally, gross income includes monies derived from pensions, income in respect of a decedent (IRD),<sup>12</sup> and income from an interest in an estate or trust.<sup>13</sup>

After gross income is determined, then any applicable adjustments,<sup>14</sup> deductions, and tax exemptions are subtracted, thereby yielding the taxable income.<sup>15</sup> The taxpayer will then be placed in a tax-bracket<sup>16</sup> based on taxable income, and the applicable tax rate will determine the actual dollar amount owed to the Internal Revenue Service (IRS).<sup>17</sup> After

determining the dollar amount owed, it is possible to reduce the tax bill, if the taxpayer is entitled to any tax credits.<sup>18</sup> Tax credits are different from tax deductions because they are applied after the individual’s tax rate is calculated and serve to reduce the taxpayer’s tax liability dollar-for-dollar.<sup>19</sup> Tax credits are preferable to tax deductions because deductions only decrease the amount of income upon which the tax bill is calculated, whereas credits cut the final bill by the dollar amount of the credit,<sup>20</sup> which in some cases can even provide a refund.<sup>21</sup>

## B. Taxable Income

Servicemembers receive many forms of compensation for their service.<sup>22</sup> Some of these are taxable, and some are

<sup>8</sup> 26 U.S.C.A. § 61 (West 2015).

<sup>9</sup> *Id.* “A fringe benefit is a form of pay for the performance of services. For example, you provide an employee with a fringe benefit when you allow the employee to use a business vehicle to commute to and from work.” INTERNAL REVENUE SERV., PUB. 15-B, EMPLOYER’S TAX GUIDE TO FRINGE BENEFITS 3 (2015) [hereinafter I.R.S. PUB. 15-B].

<sup>10</sup> 26 U.S.C.A. § 61 (West 2015).

<sup>11</sup> *Id.*

<sup>12</sup> Income in respect of a decedent (IRD) is defined as, “[m]oney that was due to a decedent and will pass through to the recipient or estate as income during that tax year.” *Income in Respect of a Decedent—IRD*, INVESTOPEDIA, [http://www.investopedia.com/terms/i/income\\_respectof\\_decedent.asp](http://www.investopedia.com/terms/i/income_respectof_decedent.asp) (last visited Oct. 20, 2016). An example of IRD would be a deceased Service member’s unpaid pay and allowances.

<sup>13</sup> 26 U.S.C.A. § 61 (West 2015).

<sup>14</sup> Adjustments can include (but are not limited to) business deductions, travel expenses for members of the reserve components, deductions attributable to rents, penalties for the early withdrawal of savings, alimony payments, moving expenses, interest paid on student loans, higher education expenses, health savings account deductions, and others. 26 U.S.C.A. § 62 (West 2015). Gross income minus all applicable adjustments equals the taxpayer’s adjusted gross income (AGI). *Id.*

<sup>15</sup> INTERNAL REVENUE SERV., PUB. 17, YOUR FEDERAL INCOME TAX FOR INDIVIDUALS (2015) [hereinafter I.R.S. PUB. 17].

<sup>16</sup> There are seven established tax-brackets which quantify the percentage of income tax owed based on filing status and taxable income: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. 26 CFR § 601.602 (2016). For example, married persons filing jointly that have taxable income over \$75,300 but less than \$151,900 would be in the 25% tax-bracket. *Id.* Their tax would be \$10,367.50 + 25% of the excess taxable income over \$75,300. *Id.* Whereas an unmarried individual whose taxable income is over \$37,650 but less than \$91,150 would also fall in the 25% tax-bracket. *Id.* The unmarried taxpayer would owe \$5,183.75 + 25% of the excess taxable income over \$37,650. *Id.*

<sup>17</sup> I.R.S. PUB. 17, *supra* note 15, at 202.

<sup>18</sup> *Id.*

<sup>19</sup> Kay Bell, *Why Tax Credits are Better*, BANKRATE (Feb. 11, 2009), <http://www.bankrate.com/finance/money-guides/why-tax-credits-are-better-2.aspx>.

<sup>20</sup> *Id.* By way of example,

The tuition and fees deduction offers eligible taxpayers a \$4,000 deduction. Another tax break for educational expenses, the Lifetime Learning Credit, is only half that. But don’t be so fast to opt for the deduction. With the \$4,000 deduction, you subtract that amount from your earnings to reach a smaller taxable income amount; \$50,000 then becomes \$46,000. But that \$46,000 still leaves you in the 25% tax bracket, meaning that your \$4,000 deduction is worth, when you finally compute your tax bill, only a fourth of its dollar value: \$4,000 x 25%, or \$1,000. The \$2,000 Lifetime Learning credit, however, is subtracted from your final tax bill. So if you owed \$2,200 on your \$50,000 income, the credit will knock that down to only \$200.

*Id.*

<sup>21</sup> There are currently five refundable tax credits which could provide a refund beyond your tax liability: the Earned Income Tax Credit (EITC), the Health Coverage Tax Credit, the Making Work Pay Credit, the Child Tax Credit, and the Additional Child Tax Credit. *Tax Credits vs. Tax Deductions*, NERDWALLET (Dec. 17, 2015), <https://www.nerdwallet.com/blog/taxes/tax-credit-vs-tax-deduction/>.

<sup>22</sup> *Pay*, MILITARY COMPENSATION, <http://militarypay.defense.gov/Pay.aspx> (last visited Oct. 20, 2016).

There are various types of pay. Basic pay is received by all [servicemembers] and is the main component of an individual’s salary. The other pays, often referred to as special and incentive pays, are for specific qualifications or events. For example, there are special pays for aviators and parachutists; special pays are also paid for dangerous or hardship duties. Allowances are the second most important element of military pay. Allowances are moneys provided for specific needs, such as food or housing. Monetary allowances are provided when the government does not provide for that specific need. For example, the quantity of government housing is not sufficient to house all military members and their families. Those who live in government housing do not receive full housing allowances. Those who do not live in government housing receive allowances to assist them in obtaining commercial housing. The most common allowances are Basic Allowance for Subsistence (BAS) and Basic Allowance for Housing (BAH). A majority of the force receives both of these allowances and, in many cases, these allowances comprise a significant portion of the member’s total pay.

*Id.*

non-taxable, thereby conferring a tax benefit.<sup>23</sup> Some types of military pay are considered part of gross income and subject to federal income tax.<sup>24</sup> Military allowances, however, are generally not part of gross income and are not subject to federal income tax.<sup>25</sup>

For example, active duty basic pay, reserve training and drill pay, and continental United States cost of living allowance (CONUS COLA) are all taxable forms of income.<sup>26</sup> Many forms of special pay, including foreign language proficiency, hardship duty, and foreign duty pay are also taxable.<sup>27</sup> Bonus pay for career status, enlistment and reenlistment, officer continuation pay, and overseas extensions are subject to tax.<sup>28</sup> Incentive pay for submarine, flight, hazardous duty, and high altitude/low opening (HALO) are also examples of taxable income.<sup>29</sup> Finally, other pay such as personal money allowances paid to high-ranking officers and student loan repayments fall under taxable income.<sup>30</sup>

<sup>23</sup> IRC § 134. See, e.g., LAWRENCE KAPP & BARBARA SALAZAR TORREON, CONG. RES. SERV., RL33446, MILITARY PAY: KEY QUESTIONS & ANSWERS 7 (2015).

<sup>24</sup> *Id.*

<sup>25</sup> *Id.* See, e.g., IRC § 134.

<sup>26</sup> INTERNAL REVENUE SERV., PUB. 3, ARMED FORCES TAX GUIDE 4 (Jan. 14, 2015) [hereinafter I.R.S. PUB. 3]. Other taxable forms of basic pay include attendance at service schools and back wages. *Id.*

<sup>27</sup> *Id.* Additional forms of taxable special pay include aviation career incentives, career sea pay, diving duty, hostile fire or imminent danger pay if not in a designated combat-zone, medical and dental officer pay, nuclear-qualified officer pay, optometry and pharmacy pay, special compensation for assistance with activities of daily living, special duty assignment pay, veterinarian pay, and voluntary separation incentive pay. *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* Other pay subject to tax also includes pay for accrued leave and high deployment per diem. *Id.*

<sup>31</sup> *Id.* at 5.

<sup>32</sup> “The purpose of DLA [Dislocation Allowance] is to partially reimburse a member, with or without dependent(s), for the expenses incurred in relocating the member’s household on a PCS [Permanent Change of Station], on a housing move ordered for the government’s own convenience, or incident to an evacuation.” U.S. DEP’T OF DEF., JOINT TRAVEL REG. 5A10-1 (1 Nov. 2015) [hereinafter JTR]. Current DLA rates can be found by visiting the Defense Travel Management Office’s website. DLA, DEF. TRAVEL MGMT. OFF., <http://www.defensetravel.dod.mil/site/otherratesDLA.cfm> (last visited Oct. 20, 2016).

<sup>33</sup> “TLE [Temporary Lodging Expense] is an allowance intended to partially pay members for lodging/meal expenses incurred by a member/dependent(s) while occupying temporary lodging in CONUS [contiguous United States] ICW [in conjunction with] a PCS.” JTR, *supra* note 32, at 5A9-1 Temporary Lodging Expense is limited to ten days. *Id.*

<sup>34</sup> “TLA [Temporary Lodging Allowance] is an allowance intended to partially pay members for the more than normal expenses incurred by a member/dependent(s) while temporary lodging OCONUS [outside the

## C. Non-Taxable Income

### 1. Active Duty and Reserve Component

Active duty servicemembers and reserve component members serving on U.S. Code Title 10 orders receive a significant tax benefit through different forms of non-taxable allowances. Some of the most common and substantial benefits include living allowances, such as basic allowance for housing (BAH), basic allowance for subsistence (BAS), overseas housing allowance (OHA), and outside the Continental United States cost of living allowance (OCONUS COLA).<sup>31</sup> Certain relocation and travel allowances are included in non-taxable income, such as the Dislocation Allowance (DLA),<sup>32</sup> Temporary Lodging Expense (TLE),<sup>33</sup> Temporary Lodging Allowance (TLA),<sup>34</sup> and per diem pay when in a temporary duty yonder (TDY) status.<sup>35</sup> Some other forms of non-taxable income include uniform allowances,<sup>36</sup> state bonus pay for combat-zone service,<sup>37</sup> and military base and realignment and closure benefits.<sup>38</sup>

continental United States].” *Id.* at 9C1-1. Outside the Contiguous United States, TLA will not be paid for more than sixty days, unless an extension is granted by the appropriate approving authority. *Id.*

<sup>35</sup> I.R.S. PUB. 3, *supra* note 26, at 5. Other non-taxable moving and travel allowances include reimbursement for moving household items to a permanent duty station (PDS) and leave between consecutive overseas tours (COT). *Id.*

<sup>36</sup> Enlisted servicemembers receive an initial clothing allowance consisting of either an in-kind issue or a combination of in-kind issue and cash payment, and a cash clothing replacement allowance annually thereafter. An extra clothing allowance may be paid for servicemembers performing special duties or to those requiring civilian clothing for their duties. U.S. DEP’T OF DEF., 700.14-R, DOD FIN. MGMT. REG., vol. 7A, ch. 29 (Feb. 2015). Current uniform allowance rates for enlisted servicemembers can be found by visiting the Defense Finance and Accounting Services (DFAS) website. *FY2016 Military Clothing Allowances*, DEF. FIN. AND ACCT. SERV., <http://www.dfas.mil/militarymembers/payentitlements/2016ClothingAllowance.html> (last visited Oct. 20, 2016). Officers are entitled to an initial uniform allowance of \$400.00 when first reporting to active duty, regardless of the source of commission or previous enlisted status. U.S. DEP’T OF DEF., 700.14-R, DOD FIN. MGMT. REG., vol. 7A, ch. 30 (June 2015). Qualified officers will thereafter receive a one-time additional active duty uniform allowance of \$200.00 after completing ninety days of active service. *Id.*

<sup>37</sup> Several states offer cash bonuses ranging from fifty dollars up to several thousand dollars for active duty servicemembers or veterans meeting certain criteria. Massachusetts, for example, offers residents who have served one or more days in Iraq or Afghanistan since September 11, 2001, a \$1,000 cash bonus and a \$500 cash bonus for each subsequent deployment. Deborah B. Goldberg, *Veterans’ Bonus—Active Status Applicants*, MASS.GOV (2016), <http://www.mass.gov/treasury/veterans/welc-home-bonus/first-time-applicants.html>. Servicemembers who did not deploy but served over six months on active duty are eligible to receive a \$500 bonus. *Id.* To check if your state of legal residence offers state bonus pay for military service, visit your state’s department of veteran’s affairs or veteran’s services website. Most states require servicemembers to file applications with substantiating documents and meet certain filing deadlines. Only state bonuses paid because of service in a designated combat-zone, however, are tax-exempt. I.R.S. PUB. 3, *supra* note 26, at 5.

<sup>38</sup> I.R.S. PUB. 3, *supra* note 26, at 5. Servicemembers who acquired property that was located at or near military installations that were ordered to be closed may be eligible to receive reimbursement for qualifying losses incurred, if the property was sold under market value or the property was

To better understand these tax consequences, take for example Sergeant First Class (SFC) Jenna Schwartz who has been in the military for eleven years. She is stationed at Fort Drum, New York, and is divorced with one child. In 2015, SFC Schwartz made \$3,747.00 monthly in Base Pay, \$367.92 monthly in BAS, and \$1,827.00 monthly in BAH, for a total monthly income of \$5,941.92. Of that amount, SFC Schwartz did not have to pay taxes on \$2,194.92, which is approximately thirty-seven percent of her total monthly income. In addition, at the end of the year, this non-taxable income will allow SFC Schwartz to be in a lower overall income tax bracket, further lowering her tax liability.<sup>39</sup> Over the course of a year, and over the course of a military career, those savings add up.

## 2. Veterans

Certain types of pay and allowances received by veterans<sup>40</sup> and their families fall into the non-taxable income category.<sup>41</sup> This includes benefits paid by the Department of Veterans Affairs (VA), to include monies received for education, training, and subsistence allowances, disability compensation, and pension payments for disabilities paid either to veterans or their families.<sup>42</sup> Veterans can also receive tax-free grants for homes designed for wheelchair living, grants for motor vehicles for veterans who lost their sight or the use of their limbs, and payments made under the compensated work therapy program.<sup>43</sup> In addition, veterans' insurance proceeds and dividends paid either to veterans or their beneficiaries, including the proceeds for a veteran's endowment policy paid before death, and interest on insurance dividends left on deposit with the VA are tax-free.<sup>44</sup>

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foreclosed. 42 U.S.C.A. § 3374 (West 2015). Additionally, certain disabled servicemembers who were reassigned in furtherance of medical treatment or medical retirement may receive similar reimbursement for qualifying property losses. *Id.*

<sup>39</sup> If all of Sergeant First Class (SFC) Schwartz's annual military income was taxable (\$5,941.92 per month x 12 months = 71,303.04 - \$9,250 standard deduction = \$62,053.04) she would end up in a 25% tax bracket, if filing as head of household. 2015 *Federal Tax Rates, Personal Exemptions, & Standard Deductions*, U.S. TAX CENTER, <https://www.irs.com/articles/2015-federal-tax-rates-personal-exemptions-and-standard-deductions> (last visited Oct. 20, 2016). However, after excluding the non-taxable allowances from her income, (\$3,747.00 per month x 12 months = \$44,964 - \$9,250 standard deduction = \$35,714) she would end up in a 15% tax bracket, if filing as head of household. *Id.* (calculations on file with author).

<sup>40</sup> See *infra* Appendix A for state tax exemptions such as property tax, income tax, and tax-free educational benefits as this paper only addresses certain federal income tax exemptions for veterans.

<sup>41</sup> I.R.S. PUB. 17, *supra* note 15, at 51. "Do not include in your income any veterans' benefits paid under any law, regulation, or administrative practice administered by the Department of Veterans Affairs (VA)." *Id.*

<sup>42</sup> *Id.*

<sup>43</sup> *Id.* at 52.

<sup>44</sup> *Id.*

## III. Tax Benefits for Servicemembers

Tax-exempt combat pay and tax-free allowances are unique and important components of the military compensation system. These special tax-free benefits were enacted as recognition of the significant risks and dangers faced by Servicemembers.<sup>45</sup>

### A. Combat-Zone Exclusions

#### 1. Qualified Service

During World War II, Congress established a combat-zone tax exclusion to help alleviate some of the financial burdens on those fighting the nation's wars.<sup>46</sup> Today, servicemembers ordered to serve in designated combat-zones (CZ) or qualified hazardous duty areas (QHDA) receive tax-free income.<sup>47</sup> The President of the United States designates CZs for taxation purposes through the issuance of Executive Orders.<sup>48</sup> Congress has the authority to designate QHDAs.<sup>49</sup> Servicemembers may also qualify for tax-free income if they are performing a service that is in "direct support of military operations in a combat zone or qualified hazardous duty area" as certified by the Department of Defense (DoD).<sup>50</sup> To qualify for tax-free income under this provision, servicemembers will typically be stationed in close proximity to a designated CZ or QHDA and must be receiving hostile fire pay or imminent danger pay.<sup>51</sup> Collectively, these income tax exclusions are referred to as "combat-zone" exclusions.<sup>52</sup> Additionally, servicemembers who are evacuated from a CZ due to being wounded, injured, or having contracted a disease, can continue to receive tax-free income throughout the duration of their hospitalization.<sup>53</sup>

<sup>45</sup> SAUL PLEETER ET AL., THE QUADRENNIAL REVIEW OF MILITARY COMPENSATION 359 (2011).

<sup>46</sup> *Id.* at 379.

<sup>47</sup> I.R.S. PUB. 3, *supra* note 26, at 9. "Service in a combat zone includes any periods you are absent from duty because of sickness, wounds, or leave." *Id.* at 10. See *infra* Appendix B for enumerated combat-zones (CZ), qualified hazardous duty areas (HDA), and areas used in providing direct support for military operations.

<sup>48</sup> 26 U.S.C.A. § 112 (West 2015).

<sup>49</sup> 37 U.S.C.A. § 310 (West 2015).

<sup>50</sup> I.R.S. PUB. 3, *supra* note 26, at 9.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> 26 U.S.C.A. § 112 (West 2015). The tax-free status will terminate at the conclusion of the Service member's hospitalization, or not more than two years after the end of combatant activities in the area. *Id.* Additionally, servicemembers who are hospitalized after leaving a CZ for a wound, disease, or injury received while serving in a CZ can still exclude military pay earned during the hospitalization. I.R.S. PUB. 3, *supra* note 26, at 10. Illnesses that do not manifest for over a year after the Service member leaves the CZ are presumed to not be combat-related for purposes of taxation. *Id.*

## 2. Amount of Exclusion

All enlisted servicemembers, warrant officers, and commissioned warrant officers' basic active duty pay are non-taxable while serving in a CZ.<sup>54</sup> However, Medicare and Social Security taxes will continue to be withheld.<sup>55</sup> In contrast, commissioned officers' basic active duty pay is non-taxable up to the amount earned by the highest ranking enlisted servicemembers.<sup>56</sup> Servicemembers serving at least one day in a CZ are entitled to tax-exemption of their basic pay for the entire month.<sup>57</sup> In addition to tax-exemption of basic pay, servicemembers will not be taxed on certain other types of compensation received while serving in a CZ, including imminent danger/hostile fire pay; any reenlistment bonuses earned after voluntarily reenlisting while in the CZ; certain student loan repayments;<sup>58</sup> and pay for accrued leave earned while serving in a CZ, among others.<sup>59</sup> All qualifying CZ income will be excluded from the wages reported on the Form W-2, Wage & Tax Statements.<sup>60</sup>

## 3. Combat-Zone Savings

Tax-free pay earned in a CZ can provide a great investment opportunity. The IRS allows tax-free combat pay to be used for contributions to an Individual Retirement Account (IRA), which grows tax-deferred until withdrawn.<sup>61</sup> An even better option for servicemembers in a CZ is to make

contributions to a Roth IRA, because the tax-free pay earned there can turn into tax-free withdrawals in retirement, as distributions of earnings are not taxed.<sup>62</sup> Servicemembers can contribute up to \$5,500 per year into their Roth IRA, and in some cases, an additional \$5,500 per year into their spouse's Roth IRA.<sup>63</sup> An additional investment option for servicemembers is the federal Roth Thrift Savings Plan (Roth TSP). The normal annual contribution limit is \$18,000.<sup>64</sup> However, when serving in a CZ, the annual contribution limit increases to \$53,000.<sup>65</sup> The money deposited while in a CZ into the Roth TSP is tax-free and also comes out tax-free at withdrawal, as long as certain IRS requirements are met.<sup>66</sup>

## 4. Deadline Extensions

In addition to receiving tax-free income while serving in a CZ, servicemembers also receive another tax benefit in the form of a tax filing and payment extension.<sup>67</sup> Servicemembers receive a 180-day extension from the last day spent in a CZ or performing qualifying service outside a CZ, deployed in support of a contingency operation, or while hospitalized as a result of combat injuries.<sup>68</sup> The 180-day extension is added to any remaining time the Service member had to file or pay taxes before the deployment.<sup>69</sup>

To highlight this point, take for example Specialist (SPC) Willy Melvin, who deployed to Afghanistan on March 31,

<sup>54</sup> 26 U.S.C.A. § 112 (West 2015).

<sup>55</sup> *Employers with Employees in a Combat Zone*, IRS.GOV (Feb. 18, 2016), <https://www.irs.gov/uac/Employers-with-Employees-in-a-Combat-Zone>.

<sup>56</sup> 26 U.S.C.A. § 112 (West 2015). For 2016, this amount is equal to \$8,222.10 per month. This is based off the basic pay paid to the Master Chief Petty Officer of the Navy, the Chief Master Sergeant of the Air Force, the Sergeant Major of the Army and Marine Corps, and the Senior Enlisted Advisor to the Joint Chiefs of Staff, which amounts to \$7,997.10 plus \$225.00 for Hostile Fire/Imminent Danger Pay. See *2016 Military Pay Chart*, DEF. FIN. AND ACCT. SERV., <http://www.dfas.mil/militarymembers/payentitlements/military-pay-charts.html> (last visited Oct. 20, 2016).

<sup>57</sup> I.R.S. PUB. 3, *supra* note 26, at 9.

<sup>58</sup> *Id.*

If the entire year of service required to earn the repayment was performed in a combat zone, the entire repayment 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.

*Id.*

<sup>59</sup> *Id.* Family Separation Allowance (FSA), provided to servicemembers separated from their dependents for more than thirty continuous days due to unaccompanied PCS orders, deployment orders, or Temporary Duty (TDY), is another example of a non-taxable allowance. U.S. DEP'T OF DEF., 7000.14-R, DOD FIN. MGMT. REG., vol. 7A, ch. 25 (Apr. 2016).

<sup>60</sup> I.R.S. PUB. 3, *supra* note 26 at 9.

<sup>61</sup> *Special Tax Breaks for Military Members*, MILITARY.COM (2016), <http://www.military.com/money/personal-finance/taxes/special-tax-breaks-for-military-members.html>.

<sup>62</sup> *Roth IRAs*, IRS.GOV (Dec. 17, 2015), <https://www.irs.gov/Retirement-Plans/Roth-IRAs>.

<sup>63</sup> *Retirement Topics—IRA Contributions*, IRS.GOV (Dec. 23, 2015), <https://www.irs.gov/Retirement-Plans/Plan-Participant-Employee/Retirement-Topics-IRA-Contribution-Limits>. Individuals over fifty years old can contribute up to \$6,500 per year. *Id.* Servicemembers can contribute to a spouse's IRA account, even if the spouse does not have taxable income, so long as they file a joint tax return. *Id.*

<sup>64</sup> *Contribution Limits*, THRIFT SAVINGS PLAN (2016), <https://www.tsp.gov/PlanParticipation/EligibilityAndContributions/contributionLimits.html>.

<sup>65</sup> *Id.* For 2015 and 2016, \$18,000 is the elective deferral limit in accordance with Internal Revenue Code (IRC) 402(g), but \$53,000 is the annual additional limit in accordance with IRC 415(c). As a result, if a servicemember is in the combat zone, the servicemember could contribute \$18,000 to a Roth TSP, and the remaining \$35,000 to a traditional TSP account. See Treas. Reg. § 1.402(g)-1 (2016) (Limitation on exclusion for elective deferrals) "(b) Elective deferrals. An individual's elective deferrals for a taxable year are the sum of the following: (5) Any designated Roth contributions described in section 402A (before applying the limits of section 402(g) or this section)." *Id.* Members can contribute to Roth TSP, because Treasury authorized individuals subject to the foreign income tax exclusion to contribute to a Roth 401(k). See Treas. Reg. § 1.401(k)-1.

<sup>66</sup> *Tax Treatment of Your Contributions: Traditional and Roth Contributions*, THRIFT SAVINGS PLAN (2016), <https://www.tsp.gov/PlanParticipation/EligibilityAndContributions/TaxTreatment/index.html>.

<sup>67</sup> I.R.S. PUB. 3, *supra* note 26, at 24.

<sup>68</sup> *Id.*

<sup>69</sup> *Id.*

2015, and had not yet filed his 2014 taxes (which under normal circumstances were due on April 15, 2015). The unit re-deployed from Afghanistan on October 1, 2015, and SPC Melvin now has 180 days to file his 2014 taxes, plus an extra fifteen days (for a total of 195 days) to account for the time he had left to file his tax return before he entered the CZ (April 1–15, 2015). His 2014 tax filing is now due on April 13, 2016, providing a welcome reprieve for the Service member.

## B. Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a credit available for individuals with low to moderate income levels.<sup>70</sup> The credit may provide a tax refund even when taxes are not owed.<sup>71</sup> To qualify for the credit, one must meet certain income thresholds and file a tax return.<sup>72</sup> In 2015 for example, a married taxpayer<sup>73</sup> filing jointly who does not have children can have an adjusted gross income (AGI) of up to \$20,330 and qualify for the credit, whereas a married taxpayer filing jointly with three or more children can have an AGI up to \$53,267.<sup>74</sup> For purposes of calculating the EITC, income must be taxable.<sup>75</sup> Servicemembers, however, have the option of including non-taxable combat pay in their earned income for purposes of calculating the EITC, *if* it would benefit them to do so.<sup>76</sup> If a servicemember elects to include non-taxable combat pay, then all combat pay for that tax year must be included in the calculation.<sup>77</sup>

To fully understand the tax benefits of the EITC, consider Sergeant (SGT) Andres Hernandez. He is thirty years old, married with three children, and has five years of service. In 2015, SGT Hernandez made \$2,580.60 per month in base pay, and was stationed at Fort Bragg, North Carolina, for the months of January and February. On March 1, 2015, SGT

Hernandez deployed to Iraq and remained there until re-deploying on December 31, 2015. During 2015, SGT Hernandez only made \$5,161.20 in taxable income for the two months he was stationed at Fort Bragg, while the other ten months he earned tax-free combat pay. When filing his 2015 taxes, SGT Hernandez claims the EITC without including his non-taxable combat pay. He is thrilled to learn that he will get a tax refund of \$2,329.00. However, when SGT Hernandez asks his friendly military tax preparer to run the numbers again, this time including his discretionary non-taxable combat pay, SGT Hernandez is ecstatic to learn that now he will receive a tax refund of \$4,690. In other words, not only did SGT Hernandez not pay any income tax during 2015, the government actually paid him “bonus money.”

## C. Military Family Tax Relief Act of 2003

To provide military members with improved tax equality, the Military Family Tax Relief Act of 2003 (MFTRA) was passed, enabling qualified servicemembers that sold their principal residence to exclude certain capital gains.<sup>78</sup> Normally, any gains received on the sale of a principal residence are included in a taxpayer’s gross income, unless they may be excluded or deferred.<sup>79</sup> Individual taxpayers are able to exclude up to \$250,000 of gain, and married taxpayers up to \$500,000 of gain, if they can meet a five-year ownership and use test.<sup>80</sup> To meet the test, the taxpayer must have owned and used the home as a principal residence two out of five years directly preceding the sale of the home.<sup>81</sup>

Prior to the passage of the MFTRA, many servicemembers had difficulty meeting the five-year test due to the frequency of Permanent Change of Station (PCS) moves. The MFTRA, however, suspended the five-year test for up to ten years for servicemembers that were on military

<sup>70</sup> *Earned Income Tax Credit (EITC)*, IRS.GOV (Mar. 11, 2016), <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit>.

<sup>71</sup> *Id.*

<sup>72</sup> 26 U.S.C.A. § 32 (West 2015).

<sup>73</sup> If the taxpayer does not have children, then he or she must be at least twenty-five years of age but less than sixty-five years of age and not be either the dependent or qualifying child of another person. INTERNAL REVENUE SERV., PUB. 596, EARNED INCOME CREDIT (EIC) (Jan. 6, 2016) [hereinafter I.R.S. PUB. 596]. Unmarried taxpayers without children who have an AGI of less than \$14,820 will also qualify for the EIC. *Id.*

<sup>74</sup> To qualify for the credit, married taxpayers must file jointly, meaning that they cannot file tax returns “married filing separately.” *Id.* at 5. Additionally, children must meet relationship, age, and residency requirements in order for the taxpayer to claim them for the EIC. *Id.* at 9. Importantly, a child must either be under age nineteen or under age twenty-four and a full-time student. *Id.* The child must also reside with the parents for more than half of the year. *Id.* at 10. Paying for a child’s living expenses is not a substitute for the half year resident requirement. *Id.*

<sup>75</sup> *Id.* at 7. To qualify for the EIC, any investment income must be less than \$3,400. *Id.* at 3.

<sup>76</sup> *Id.* at 19. Servicemembers cannot include basic allowance for subsistence (BAS) or basic allowance for housing (BAH) as income for EIC

purposes. *Id.* There are several online EIC calculators that can assist servicemembers in deciding whether or not to include not-taxable combat pay in their income for the purposes of qualifying for the EIC. *See, e.g., Earned Income Credit (EIC) Calculator*, DINKYTOWN.NET, <https://www.dinkytown.net/java/EarnedIncomeCredit.html> (last visited Oct. 20, 2016).

<sup>77</sup> I.R.S. PUB. 596, *supra* note 73, at 19. To qualify for the EIC, the taxpayer must have lived in the United States for more than half of the calendar year, however, military members stationed (outside the continental United States) OCONUS or on OCONUS deployment orders will be considered to have lived in the United States during that period of time. *Id.* at 17.

<sup>78</sup> Joint Committee on Taxation, *Technical Explanation of H.R. 3365, the “Military Family Tax Relief Act of 2003,” as Passed by the House of Representatives and the Senate* (2003).

<sup>79</sup> INTERNAL REVENUE SERV., PUB. 523, SELLING YOUR HOME (Dec. 28, 2015) [hereinafter I.R.S. PUB. 523].

<sup>80</sup> 26 U.S.C.A. § 121 (West 2015). To be eligible to exclude up to \$500,000.00 in gain, married taxpayers must file jointly the year the home was sold. *Id.*

<sup>81</sup> *Id.*

orders serving on “qualified official extended duty” at least fifty miles from the home.<sup>82</sup> This ten-year suspension gives servicemembers more flexibility when selling homes they purchased prior to or while on active duty, and allows them to reap the benefits of the capital gains exclusion. Servicemembers that own more than one residential property may only make the ten-year suspension election for one property at a time.<sup>83</sup>

To better understand the ten-year military suspension exception, consider the example of First Lieutenant (1LT) Melissa Biddle. She bought a single-family home in Colorado Springs, Colorado, in May of 2007 and lived there with her family until May of 2010 when they moved, pursuant to military orders, to Fort Belvoir, Virginia. After her PCS, 1LT Biddle’s mother moved into the home in Colorado and 1LT Biddle never again used the home as her primary residence. First Lieutenant Biddle’s mother moved out of the home in May of 2015, and 1LT Biddle put the house on the market, selling it within the month. Even though 1LT Biddle had not lived in the home since 2010, she was able to use the MFTRA to suspend the ownership and use test for five years (2010-2015) so that when she sold the home, she did not have to pay capital gains taxes on the \$90,000 profit she made.<sup>84</sup>

#### D. Servicemembers Civil Relief Act

The Servicemembers Civil Relief Act (SCRA) provides additional tax protections for servicemembers.<sup>85</sup> If a servicemember provides notice to the IRS or state tax authority that the servicemember is unable to pay income taxes that came due before, or during military service, the taxes may be deferred.<sup>86</sup> The servicemember must show that military service materially affected the ability to pay the

taxes.<sup>87</sup> The deferment period will last no longer than 180 days after release from military service.<sup>88</sup> In addition, no interests or penalties will accrue while the taxes are in a deferred status.<sup>89</sup>

#### IV. Education-Based Tax Benefits

In addition to tax benefits realized as a result of special military compensation and tax exemptions, since 1944, Congress has provided tax-free education benefits to servicemembers.<sup>90</sup> These benefits were initially intended to provide assistance to veterans after the completion of their military service, but these benefits have evolved substantially in the decades that followed.<sup>91</sup> Education benefits are now used as a recruiting and retention tool and can comprise a significant portion of a servicemember’s non-cash tax-free compensation, if fully utilized.<sup>92</sup>

##### A. Reserve Officers Training Course

The Reserve Officers Training Course (ROTC) is a college-based officer leader development program. Students who sign a contract to serve in the military after college are eligible to receive certain tax-free benefits while still in college.<sup>93</sup> Tax-free benefits include ROTC education allowances such as tuition and books<sup>94</sup> as well as subsistence allowances paid to cadets while in school.<sup>95</sup> Subsistence allowances typically range from \$300—\$500 per month, depending on the level achieved in the ROTC curriculum.<sup>96</sup> However, pay received during weekend drills and annual

<sup>82</sup> *Id.* “The term ‘qualified official extended duty’ means any extended duty while serving at a duty station which is at least 50 miles from such property or while residing under Government orders in Government quarters.” *Id.* “The term ‘extended duty’ means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.” *Id.*

<sup>83</sup> *Id.*

<sup>85</sup> 50 U.S.C.A. § 4000 (West 2015).

<sup>86</sup> *Id.*

<sup>87</sup> *Id.*

<sup>88</sup> *Id.*

<sup>89</sup> *Id.*

<sup>90</sup> DAVID P. SMOLE & SHANNON S. LOANE, CONG. RES. SERV., RL34549, A BRIEF HISTORY OF VETERANS’ EDUCATIONAL BENEFITS AND THEIR VALUE 5 (2008).

<sup>91</sup> *Id.*

<sup>92</sup> *Id.* at 2. A little-known program for military spouses is the Military Spouse Career Advancement Accounts (MyCAA). This is a scholarship program for qualifying spouses of active duty servicemembers and reserve component members serving on Title 10. The spouse must be able to start and finish the program of instruction while the military sponsor is on Title

10 orders. The program offers scholarships in an amount up to \$2,000 per fiscal year with a maximum total cap of \$4,000 per spouse. The scholarships are non-taxable and may be used for spouses to obtain professional licenses, certificates, certifications, or certain Associate’s Degrees necessary for their gainful employment. Civilian spouses of servicemembers in the pay grades of E-1 to E-5, W-1, W-2, O-1, and O-2 are eligible to participate in MyCAA. *MyCAA Military Spouse Frequently Asked Questions*, MILITARY ONESOURCE (June 12, 2012) <http://download.militaryonesource.mil/12038/Project%20Documents/MilitaryHOMEFRONT/MyCAA/SpouseFAQs.pdf>.

<sup>93</sup> *Tax Help for Military Members and Veterans*, TAX HELP, <http://taxhelp.org/resources/military> (last visited Oct. 20, 2016).

<sup>94</sup> Scholarships for tuition and related expenses received by a taxpayer seeking a degree at an educational organization are not included in gross income. 26 U.S.C.A. § 117 (West 2015). Expenses can include “fees, books, supplies, and equipment required for courses of instruction at such an educational organization.” *Id.*

<sup>95</sup> I.R.S. PUB. 3, *supra* note 26, at 5.

<sup>96</sup> *Scholarships for Students & Enlisted Soldiers*, U.S. ARMY ROTC, <http://www.goarmy.com/rotc/scholarships.html> (last visited Oct. 20, 2016). Currently, first year students will receive a tax-free stipend of \$300, second year students will receive a tax-free stipend of \$350, third year students will receive a tax-free stipend of \$450, and fourth year students will receive a tax-free stipend of \$500 per month. *Id.*

summer advanced training camps are taxable income.<sup>97</sup>

## B. The Government Issue Bill

There are currently two versions of the Government Issue (GI) Bill: the Montgomery GI Bill (MGIB) and the Post-9/11 GI Bill. Education assistance received under either GI Bill are non-taxable and do not need to be included in gross income calculations.<sup>98</sup>

### 1. The Montgomery GI Bill

The MGIB provides up to thirty-six months of education benefits to veterans and servicemembers that have completed at least two years of active duty service, had \$1,200 deducted from their pay for the MGIB program, and meet other eligibility requirements.<sup>99</sup> Notably, veterans must have been discharged from the service with an honorable discharge.<sup>100</sup> The program covers educational costs of obtaining an undergraduate degree at a college or university, some independent study programs and distance learning, cooperative training programs, and accredited certificate or diploma programs.<sup>101</sup> The program also pays for apprenticeships and on-the-job training, correspondence courses, preparatory courses for tests required for admission to an institution of higher learning, flight school, study abroad, and other education programs.<sup>102</sup> Monthly benefits under the MGIB depend on the specific education program, the servicemember's length of service, the eligibility category

<sup>97</sup> *Special Tax Benefits for Armed Forces Personnel*, IRS (Jan. 23, 2012), <https://www.irs.gov/uac/Special-Tax-Benefits-for-Armed-Forces-Personnel>

<sup>98</sup> *Education and Training*, U.S. DEP'T OF VETERANS AFFS. (Feb. 29, 2015), [http://www.benefits.va.gov/gibill/post911\\_gibill.asp](http://www.benefits.va.gov/gibill/post911_gibill.asp).

<sup>99</sup> *Montgomery GI Bill Active Duty (MGIB-AD)*, U.S. DEP'T OF VETERANS AFFS. (Oct. 6, 2015), [http://www.benefits.va.gov/gibill/mgib\\_ad.asp](http://www.benefits.va.gov/gibill/mgib_ad.asp) [hereinafter *Montgomery GI Bill Active Duty*]. "Participants must have a high school diploma or GED [General Educational Development (GED) Test] or in some cases 12 hours of college credit" and meet the additional requirements contained in one of the four eligibility categories. *Id.* There is also a version of the Montgomery GI Bill for reservists called the Montgomery GI Bill for Selected Reserve (MGIB-SR). In order to qualify for MGIB-SR benefits, the servicemember must incur a six-year obligation in the selected reserve and actively drill. U.S. DEP'T OF VETERANS AFF., PAM. 22-90-3, THE MONTGOMERY GI BILL—SELECTED RESERVE (Jan. 2007) [hereinafter VA PAM. 22-90-3].

<sup>100</sup> *Montgomery GI Bill Active Duty*, *supra* note 99.

<sup>101</sup> U.S. DEP'T OF VETERANS AFF., PAM. 22-90-2, THE MONTGOMERY GI BILL—ACTIVE DUTY 23 (Feb. 2011) [hereinafter VA PAM. 22-90-2].

<sup>102</sup> *Id.* Other education programs include remedial or deficiency courses, refresher courses, tutorial training, vocational rehabilitation courses, work-study programs, small business education, benefits for national admissions exams, and high-cost, high-technology programs. *Id.* at 24-27.

<sup>103</sup> *Montgomery GI Bill Active Duty*, *supra* note 99. Servicemembers that contributed to the \$600 buy-up program are entitled to an additional \$5,400 in benefits. *Id.* Benefits under the Montgomery GI Bill Active Duty (MGIB-AD) typically expire ten years after the servicemember's honorable discharge. *Id.* Current MGIB-AD rates can be found on the Department of Veterans Affairs website. See *Montgomery GI Bill Active Duty (Chapter 30) Increased Educational Benefit*, U.S. DEP'T OF VETERANS AFFS.,

of the servicemember, and if the Service member contributed to the \$600 buy-up program.<sup>103</sup>

### 2. The Post-9/11 GI Bill

The Post-9/11 GI Bill is an educational benefit for servicemembers that served on active duty after September 10, 2001.<sup>104</sup> To be eligible, servicemembers must have served on active duty for at least ninety aggregate days or have been honorably discharged with a service-connected disability after having served at least thirty continuous days.<sup>105</sup> Unlike the MGIB, servicemembers are not required to pay for the program. Benefits include a percentage of tuition and fees<sup>106</sup> for the same types of educational programs covered by the MGIB, as well as a monthly housing allowance (MHA) and up to \$1000 per year to cover books and fees.<sup>107</sup> Servicemembers have up to fifteen years after leaving active duty to use Post-9/11 GI Bill benefits, and in some instances, can transfer the benefits to an eligible dependent.<sup>108</sup>

### 3. The Yellow Ribbon Program

The Yellow Ribbon Program was established under the Post-9/11 GI Bill in 2008.<sup>109</sup> The Yellow Ribbon Program allows colleges, universities, and certain degree-granting schools to voluntarily agree to fund tuition and fees that exceed what is normally covered under the standard Post-9/11 GI Bill.<sup>110</sup> The institutions enter into an agreement with

[http://www.benefits.va.gov/GIBILL/resources/benefits\\_resources/rates/ch30/ch30rates100115.asp](http://www.benefits.va.gov/GIBILL/resources/benefits_resources/rates/ch30/ch30rates100115.asp) (last visited Oct. 20, 2016).

<sup>104</sup> U.S. DEP'T OF VETERANS AFF. PAM. 22-09-01, POST-9/11 GI BILL (May 2012) [hereinafter VA PAM. 22-90-01].

<sup>105</sup> *Id.*

<sup>106</sup> The benefits are based on a sliding scale corresponding to time served on active duty. The minimum benefit is forty percent of in-state tuition and fees payable for up to six months and the maximum benefit is one hundred percent of in-state tuition and fees payable for up to thirty-six months. *Id.*

<sup>107</sup> *Id.* For veterans pursuing resident training, the monthly housing allowance (MHA) is equal to the BAH rate of an E-5 with dependents based on the zip code of the school. Veterans enrolled in classes less than half time are not entitled to the MHA. Servicemembers still on active duty are not entitled to the MHA. *Id.*

<sup>108</sup> To be eligible to transfer Post-9/11 GI Bill benefits, servicemembers must have served at least six years on active duty as of the date of transfer approval and then agree to serve an additional four years. Qualifying members can transfer all or a portion of their unused benefits to their spouse and children as long as their dependents are enrolled in the Defense Eligibility Enrollment Reporting System (DEERS). *Transfer Post-9/11 GI Bill to Spouse and Dependents*, U.S. DEP'T OF VETERANS AFFS. (Mar. 2, 2015), [http://www.benefits.va.gov/gibill/post911\\_transfer.asp](http://www.benefits.va.gov/gibill/post911_transfer.asp).

<sup>109</sup> U.S. DEP'T OF VETERANS AFF., PAM. 22-09-2, POST-9/11 GI BILL YELLOW RIBBON PROGRAM (June 2014) [hereinafter VA PAM. 22-09-2].

<sup>110</sup> *Id.* Active duty servicemembers and their spouses do not qualify for the Yellow Ribbon Program. Only veterans eligible for Post-9/11 GI Bill benefits at the one hundred percent rate and non-spouse dependents of active duty servicemembers are eligible to participate. *Id.*

the VA whereby the VA agrees to match the additional contribution up to fifty percent of the difference.<sup>111</sup> The Yellow Ribbon Program benefits are non-taxable.<sup>112</sup>

### C. Military Tuition Assistance

The Military Tuition Assistance (MTA) program is another form of financial aid offered to active duty servicemembers and some qualified members of the reserves.<sup>113</sup> Each service component has its own qualification criteria.<sup>114</sup> The MTA program is for servicemembers seeking to further their professional or personal self-development through continuing education on a voluntary basis during their off-duty time. The MTA program will generally cover tuition and fees up to \$4,500 per fiscal year.<sup>115</sup> Money received under the MTA program does not need to be repaid and is non-taxable.<sup>116</sup>

### V. Tax Benefits for Survivors and Dependents

In the unfortunate event of a servicemember's death, the DoD will provide a non-taxable death gratuity in the amount of \$100,000 to the servicemember's beneficiary to assist with funeral expenses and immediate necessary living expenses.<sup>117</sup> In addition, the DoD, VA, Social Security Administration, and IRS provide additional tax breaks and tax-free allowances to dependent-survivors, as outlined below.

#### A. Survivor Benefit Plan

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<sup>111</sup> *Id.* The Department of Veterans Affairs website contains a list of institutions that participate in the Yellow Ribbon Program. *Yellow Ribbon Program Information 2015–2016*, U.S. DEP'T OF VETERANS AFFS., [http://www.benefits.va.gov/GIBILL/yellow\\_ribbon/yrp\\_list\\_2015.asp](http://www.benefits.va.gov/GIBILL/yellow_ribbon/yrp_list_2015.asp) (last visited Oct. 20, 2016).

<sup>112</sup> VA PAM. 22-90-01, *supra* note 103.

<sup>113</sup> *Tax Help for Military Members and Veterans*, TAX HELP, <http://taxhelp.org/resources/military> (last visited Oct. 20, 2016).

<sup>114</sup> *Military Tuition Assistance*, MILITARY.COM (Aug. 2014), <http://www.military.com/education/money-for-school/army-tuition-assistance.html> [hereinafter *Military Tuition Assistance*].

<sup>115</sup> U.S. DEP'T OF ARMY, REG. 621-5, ARMY CONTINUING EDUC. SYS. (11 July 2006) (RAR 6 Sept. 2009).

<sup>116</sup> *Military Tuition Assistance*, *supra* note 114.

<sup>117</sup> U.S. DEP'T OF DEF., 7000.14-R, DOD FIN. MGMT. REG., vol. 7A, ch. 36 (Feb. 2014).

<sup>118</sup> Simply put, “[a]n annuity is a monthly payment for the lifetime of the beneficiary.” *Survivor Benefit Plan*, DEF. FIN. & ACCT. SERV. (Mar. 20, 2015), <http://www.dfas.mil/retiredmilitary/provide/sbp.html> [hereinafter *Survivor Benefit Plan*]. The annuity payments terminate, however, when a beneficiary dies or becomes ineligible. *Educate Your Beneficiaries*, DEF. FIN. & ACCT. SERV. (Mar. 20, 2015), <http://www.dfas.mil/retiredmilitary/provide/sbp/educate.html>. Payments will stop for children under the Survivor Benefit Plan (SBP) when they

The Department of Defense offers the Survivor Benefit Plan (SBP), which provides a monthly annuity<sup>118</sup> to military dependents or authorized designated beneficiaries,<sup>119</sup> in the event of a servicemember's or retiree's death.<sup>120</sup> While on active duty, enrollment in the SBP is automatic for those with eligible dependents and is provided at no cost to the servicemember.<sup>121</sup> Annuities for qualifying active duty deaths will be paid at a rate equal to fifty-five percent of what the servicemember's retirement pay would have been if the servicemember had been retired with full disability benefits.<sup>122</sup> Upon retirement, servicemembers can opt into the SBP by electing a percentage of their retirement benefits to be paid to their beneficiaries and paying the associated monthly premiums.<sup>123</sup>

Military retirees can elect to have their monthly annuities automatically deducted from their gross retirement pay prior to federal income tax deductions.<sup>124</sup> This deduction works to decrease the retiree's total taxable income while allowing them to provide a guaranteed income for their designated beneficiaries upon their death.<sup>125</sup> This is a tax advantage over similar commercial pension plans that draw premiums from post-tax income.<sup>126</sup>

#### B. Dependency and Indemnity Compensation

Dependency and Indemnity Compensation (DIC) is a benefit paid by the VA to dependents of servicemembers who died in the line of duty or to dependents of veterans who died as a result of a service-connected injury or disease.<sup>127</sup> Compensation is typically paid to a surviving spouse, child,

reach age eighteen, and payments will stop for spouses if they remarry before age fifty-five. *Id.*

<sup>119</sup> Authorized beneficiaries include spouses, to include same-sex spouses, but not civil unions or domestic partnerships; children; former spouses; and other individuals the Service member has a legitimate insurable interest in, such a sibling. *Survivor Benefit Plan*, *supra* note 118.

<sup>120</sup> 10 U.S.C.A. § 73 (West 2015).

<sup>121</sup> For servicemembers who are not yet retirement-eligible and die while on active duty, their death must be found to be “in Line of Duty” for SBP benefits to attach. 10 U.S.C.A. § 1448 (West 2015). For more information on line of duty determinations and how the results can affect benefits see Major Melvin L. Williams, *In the Line of Duty? A Primer on Line of Duty Determinations and the Impact on Benefits for Soldiers and Families*, ARMY LAW., Nov. 2014, at 20.

<sup>122</sup> 10 U.S.C.A. § 1451 (West 2015). This is effectively equal to seventy-five percent of full retired pay.

<sup>123</sup> *Survivor Benefit Plan*, *supra* note 118. The cost of the survivor benefit plan (SBP) for retirees will not exceed 6.5% of their gross retirement pay for spousal coverage. *Id.*

<sup>124</sup> *Id.*

<sup>125</sup> *Id.*

<sup>126</sup> The recipients of the SBP annuities are taxed on the benefit and must report it as gross income. *Id.*

<sup>127</sup> *Dependency and Indemnity Compensation*, U.S. DEP'T. OF VETERANS AFFS. (Jan. 8, 2016), <http://www.benefits.va.gov/COMPENSATION/types->

or parent of the deceased servicemember or veteran.<sup>128</sup> The basic current DIC entitlement for a spouse or child-dependent is \$1,254.19 per month.<sup>129</sup> Additional entitlements may be authorized.<sup>130</sup> Unlike SBP benefits, DIC benefits are tax-free and do not need to be reported in gross income.<sup>131</sup>

Surviving spouses and children may be entitled to both SBP and DIC benefits, but under these circumstances, surviving spouses will see a reduction in the amount of the SBP.<sup>132</sup> Any SBP benefits received by a surviving spouse will be off-set dollar-for-dollar by any authorized DIC benefits.<sup>133</sup> Surviving spouses whose SBP payments are reduced by DIC are eligible to receive the Special Survivor Indemnity Allowance (SSIA). The amount of SSIA is currently \$275 per month and is set to increase to \$310 per month on October 1, 2016.<sup>134</sup>

### C. Survivors' and Dependents' Educational Assistance Program

The Survivors' and Dependents' Educational Assistance (DEA) Program is an education program for dependents of servicemembers who died while on active duty as a result of a service-connected condition and dependents of veterans that died as a result of a service-connected condition, or that are

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dependency\_and\_indemnity.asp [hereinafter *Dependency and Indemnity Compensation*].

<sup>128</sup> Dependency and Indemnity Compensation (DIC) will only be paid to a parent if they were financially dependent on the deceased Service member/veteran. The compensation is subject to income limitations. For current Parent DIC rates, see *Parents Dependency and Indemnity Compensation*, U.S. DEP'T OF VETERANS AFFS., [http://benefits.va.gov/Pension/current\\_rates\\_Parents\\_DIC\\_pen.asp](http://benefits.va.gov/Pension/current_rates_Parents_DIC_pen.asp) (last visited Oct. 20, 2016).

<sup>129</sup> *Dependency and Indemnity Compensation—Effective 12/1/14*, U.S. DEP'T OF VETERANS AFFS. (Jan. 13, 2016), [http://benefits.va.gov/Compensation/current\\_rates\\_dic.asp#BM02](http://benefits.va.gov/Compensation/current_rates_dic.asp#BM02).

<sup>130</sup> A surviving spouse of a disabled veteran who was rated totally disabled for a period of eight years preceding the death, and who was married to the Service member for those same eight years, is entitled to an additional payment of \$266.32 per month. *Id.* Each dependent under age eighteen is entitled to \$310.71 per month. *Id.*

<sup>131</sup> *Dependency and Indemnity Compensation*, *supra* note 127.

<sup>132</sup> Many believe that having SBP benefits off-set by DIC entitlements is unfair to military widows, especially when a Service member has paid for the protection of an annuity. Lawmakers are reviewing several proposals but so far have made no promises for relief. Tom Philpott, *Military Update: House Eyes Giving Widows More Relief from 'SBP-DIC' Offset*, STARS & STRIPES (Dec. 30, 2015), <http://www.stripes.com/news/us/military-update-house-eyes-giving-widows-more-relief-from-sbp-dic-offset-1.386519>.

<sup>133</sup> Under these circumstances, the spouse could elect to have a surviving child receive the SBP benefits while the spouse received only the DIC benefits. 10 U.S.C.A § 1451 (West 2015).

If the DIC payment offsets the entire SBP annuity, no annuity is paid and the SBP premiums for spouse coverage paid by the member are refunded to the surviving spouse. If the DIC payment is less than the SBP annuity, the spouse is paid an SBP annuity equal to the difference between the full annuity and the DIC. A refund of SBP premiums is made based on the difference between the costs actually incurred and the costs

permanently and totally disabled as a result of a service-connected condition.<sup>135</sup> Dependents include both spouses as well as children, to include step-children and adopted children.<sup>136</sup> Qualified survivors and dependents are eligible to receive up to forty-five months of education assistance for degree and certificate programs, cooperative training, on the job training, as well as other education benefits.<sup>137</sup> Educational benefits received under the DEA are non-taxable and do not need to be reported as income.<sup>138</sup>

### D. Marine Gunnery Sergeant John David Fry Scholarship

The Marine Gunnery Sergeant John David Fry Scholarship (Fry Scholarship) extends the benefits of the Post-9/11 GI Bill to the children and surviving spouses of servicemembers that die in the line of duty after September 10, 2001.<sup>139</sup> The tax-free benefits include up to thirty-six months of tuition and fee payments, the MHA, and a yearly stipend for books and supplies.<sup>140</sup> Surviving spouses will lose eligibility for the Fry Scholarship upon remarriage, but children's benefits will not be affected by marriage.<sup>141</sup> In general, an election must be made between receiving benefits under the DEA Program or the Fry Scholarship.<sup>142</sup>

that would have been incurred in order to provide the annuity payable after the DIC reduction. . . . The SBP cost refund is taxed as income to the spouse since the premiums were not taxed when they were deducted from the member's retired pay; however, any portion of the SBP premium refund that was paid from a member's VA [U.S. Department of Veterans Affairs] disability compensation should not be considered taxable.

*Effect on SBP if DIC is Awarded by the VA*, A.F. RETIREE SERV. (Jan. 6, 2016), <http://www.retirees.af.mil/factsheets/factsheet.asp?id=11696>.

<sup>134</sup> *Id.* Special Survivor Indemnity Allowance (SSIA) benefits are taxable and must be reported in gross income. The SSIA benefits are set to expire completely on October 1, 2017, unless re-appropriated. *Id.*

<sup>135</sup> U.S. DEP'T OF VETERANS AFF., PAM. 22-73-3, DEPENDENTS' EDUC. ASSISTANCE PROGRAM (DEA) (Apr. 2010) [hereinafter VA PAM. 22-73-3].

<sup>136</sup> *Id.*

<sup>137</sup> *Id.*

<sup>138</sup> Once a child receives payments under the Dependent's Educational Assistance Program (DEA), they are no longer able to receive DIC entitlements. Spouses may continue to receive payments under both DEA and DIC. *Education and Training—Dependents Educational Assistance Program*, U.S. DEP'T OF VETERANS AFFS. (Apr. 6, 2015), <http://www.benefits.va.gov/GIBILL/DEA.asp>.

<sup>139</sup> *Education and Training—Fry Scholarship*, U.S. DEP'T OF VETERANS AFFS. (Apr. 6, 2015), [http://www.benefits.va.gov/GIBILL/Fry\\_scholarship.asp](http://www.benefits.va.gov/GIBILL/Fry_scholarship.asp).

<sup>140</sup> *Id.* Fry Scholarship recipients are not eligible for the Yellow Ribbon Program. *Id.*

<sup>141</sup> *Id.*

<sup>142</sup> As of January 1, 2015, surviving spouses must make an irrevocable election between benefit programs. A child whose parent died before August 1, 2011, may be eligible for both benefits but can only use one

## E. Tax Forgiveness for Combat-Zone Deaths

If a servicemember on active duty dies in a CZ,<sup>143</sup> or dies outside of a CZ due to an injury, wound, or illness sustained while serving in a CZ, all tax liability will be forgiven for the tax year in which the death occurred.<sup>144</sup> In addition, the income tax for any earlier tax year ending on or after the first day the Service member served on active duty in a CZ will also be forgiven, subject to the statute of limitations (SOL).<sup>145</sup> As a result, income taxes for prior years in which the servicemember served in *any* CZ can be amended so long as they fall within the SOL, potentially resulting in a significant amount of money going to the servicemember's estate.<sup>146</sup> The CZ tax forgiveness, however, only applies to the servicemember's tax liability, and does not forgive the tax liability of a surviving spouse filing a joint return.<sup>147</sup>

To better understand tax forgiveness for CZ deaths, consider the hypothetical example of Staff Sergeant (SSG) Mike Smith. He is married with one child. Staff Sergeant Smith deployed to Afghanistan from February 2012 until February 2013 and filed his 2012 and 2013 taxes within the time allowed by the CZ tax extensions. Staff Sergeant Smith deployed to Iraq in December of 2015 and was killed in action in January 2016. The IRS forgave and refunded all taxes owed by SSG Smith for tax years 2015 and 2016. Staff Sergeant Smith's wife, who was the executor of his estate, also filed amended tax returns for tax years 2012 and 2013. The IRS forgave and refunded all taxes owed by SSG Smith for those years as well since the three year SOL had not yet expired, and SSG Smith had served on active duty in a CZ during that time. The taxes were refunded and paid to SSG Smith's estate.

## VI. Conclusion

As a servicemember, it *pays* to be aware of, and take full advantage of, all of the tax-free benefits derived from military service. Understanding the full extent of the military compensation system, including the tax-free income and tax-

free benefits, will help servicemembers properly value military compensation packages against potential civilian employment offers and retirement plans. Virtually no other employer in the country offers the lucrative and tax-free education benefits provided by the military. These education packages can help servicemembers advance in their military careers, set them up for future success if they join the civilian work force, or help them save significant amounts of money when sending a spouse or children to college. In addition, the financial security and benefits provided to families of fallen servicemembers can prove to be invaluable. Working with military tax specialists and financial planners is a sure bet to financial security that certainly beats one in 292,201,338 odds.

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program at a time for a combined total of eighty-one months of benefits. A child whose parent died after July 31, 2011, must make an irrevocable election between benefit programs. *Education and Training-Dependents Educational Assistance Program*, U.S. DEP'T. OF VETERANS AFFS. (Apr. 6, 2015), <http://www.benefits.va.gov/GIBILL/DEA.asp>. For a chart comparing the educational benefits of both programs, see *Survivors and Dependents Assistance*, U.S. DEP'T OF VETERANS AFFS., [http://www.benefits.va.gov/gibill/survivor\\_dependent\\_assistance.asp](http://www.benefits.va.gov/gibill/survivor_dependent_assistance.asp) (last visited Oct. 20, 2016).

<sup>143</sup> "The term 'combat-zone' means any area which the President of the United States by Executive Order designates, for purposes of this section or corresponding provisions of prior income tax laws, as an area in which Armed Forces of the United States are or have engaged in combat." 26 U.S.C.A. § 112 (West 2015).

<sup>144</sup> 26 U.S.C.A. § 692 (West 2015). Decedent servicemembers will also qualify for tax forgiveness if they were serving on active duty outside the combat-zone (CZ) if their service was in direct support of military operations in the CZ, and were receiving hostile fire or imminent danger pay. I.R.S. PUB. 3, *supra* note 26, at 9.

<sup>145</sup> *Id.* at 21.

Claim for credit or refund of an overpayment of any tax imposed by this title in respect of which tax the taxpayer is required to file a return shall be filed by the taxpayer within 3 years from the time the return was filed or 2 years from the time the tax was paid, whichever of such periods expires the later, or if no return was filed by the taxpayer, within 2 years from the time the tax was paid.

26 U.S.C. A. § 6511 (West 2015). In addition to the standard three year statute of limitations (SOL), the Service member's estate will still get the benefit of any CZ tax filing extensions under the Servicemembers Civil Relief Act when calculating which tax years may still be open for purposes of filing amended returns. I.R.S. PUB. 3, *supra* note 26, at 21.

<sup>146</sup> I.R.S. PUB. 3, *supra* note 26, at 21.

<sup>147</sup> *Id.*

Appendix A. Veterans' Benefits

State/Territory	Property Tax	Education Benefits	Income Tax	Resources
Alabama	A disabled veteran in Alabama may receive a full property tax exemption on his/her primary residence if the veteran is 100 percent disabled as a result of service and has a net annual income of \$12,000 or less.	<u>Tuition Waiver for Purple Heart Medal Recipients</u> Public institutions of higher learning in the State of Alabama, including two-year and four-year postsecondary technical colleges, community colleges, and junior colleges, may waive tuition and fees for recipients of the Purple Heart Medal for undergraduate studies. <u>G.I. Dependents' Scholarship Program</u> This program is administered by the ADVA and is governed by ALA. CODE §§ 31-6-1, et seq.	Effective January 1, 1989, and for all successive tax years, all retirement or compensation received as retirement benefits by any person retired from the military service of the United States of America and survivor benefits derived therefrom is hereby exempt from any state, county or municipal income tax or like tax whatever name called.	<a href="http://www.military.com/benefits/veteran-state-benefits/alabama-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/alabama-state-veterans-benefits.html</a>
Alaska	A disabled veteran in Alaska may receive a property tax exemption of up to the first \$150,000 of the assessed value of his/her primary residence if the veteran is 50% or more disabled as a result of service.	<u>Free Tuition for Spouse or Dependent of Armed Services Member</u> The spouse or dependent of a Service member who died in the line of duty or who died as a result of injuries sustained while in the line of duty or who was listed as a POW or as MIA is entitled to a waiver of undergraduate tuition and fees the students must be in good standing in a state supported educational institution in Alaska.	No state income tax.	<a href="http://www.military.com/benefits/veteran-state-benefits/alaska-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/alaska-state-veterans-benefits.html</a>
Arizona	A disabled veteran in Arizona may receive a property tax exemption of \$3,000 on his/her primary residence if the total assessed value does not exceed \$10,000.	<u>Tuition Waivers for War-Wounded and Dependents of Killed in Action</u> A former member of the Arizona National Guard who received a purple heart citation on or after September 11, 2001 (who was medically discharged because of a service-connected injury) is eligible for a tuition waiver. A tuition waiver for Arizona community colleges and universities is also available to a dependent of the national guard member or member of the United States armed forces who was a resident of the state of Arizona or stationed in Arizona and who was killed in the line of duty or who died from injuries suffered in the line of duty while traveling to or from duty.	Federal (Civil Service or Military Retirement) payments up to \$2,500.00 per year are exempt.	<a href="http://www.military.com/benefits/veteran-state-benefits/arizona-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/arizona-state-veterans-benefits.html</a>
Arkansas	A disabled veteran in Arkansas may receive a full	Arkansas Department of Higher Education has the authority to provide free tuition and fees at	Provides an exemption of the first \$9,000.00 of active duty pay or the	<a href="http://www.military.com/benefits/veteran-">http://www.military.com/benefits/veteran-</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	property tax exemption on his/her primary residence if the veteran is blind in one or both eyes, lost the use of one or more limbs or is 100% disabled as a result of service.	any state supported college, university, technical school, or vocational school; to the wife and children of any Arkansan who has been declared to be a POW or placed in a MIA status since January 1, 1960. The same provisions apply to the surviving spouse and children of any Arkansas resident killed in action since 1960.	first \$6,000.00 of retired pay. The exemptions include Reserve and National Guard Components or for retired members who are residents of the State of Arkansas.	state-benefits/arizona-state-veterans-benefits.html
<b>California</b>	A disabled veteran in California may receive a full property tax exemption on his/her primary residence if the full value does not exceed \$150,000, household income does not exceed \$40,000, and the veteran is blind in both eyes, lost the use of two or more limbs or is 100% disabled as a result of service.	<u>College Tuition Fee Waivers for Veterans' Dependents</u> Waiver of mandatory system-wide tuition and fees at any State of California Community College, California State University or University of California campus, for qualified dependents.	There is state tax on military retired pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/california-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/california-state-veterans-benefits.html</a>
<b>Colorado</b>	A disabled veteran in Colorado may receive a property tax exemption of 50% of the first \$200,000 of the actual value of his/her primary residence if the veteran is 100% disabled.	<u>Tuition Assistance</u> Any member of the Colorado National Guard is eligible for state tuition assistance, up to 100% tuition paid at any CO state-funded school depending on funding available. <u>Tuition Assistance for Children of POWs, MIAs, or Disabled/Deceased ARNG</u> Free tuition in certain State-support schools for children of POWs or persons MIA who were Colorado residents when they entered the Armed Forces, or for children of Colorado National Guardsmen who died or were permanently disabled while on State active duty limited to dependents who do not qualify for Federal Education benefits.	Effective January 1, 2016 active duty military pay is tax-free for Colorado residents. Military retirees ages 55 - 64 can exclude up to \$20,000 in any one taxable year from their retirement pay, those 65 and over can exclude up to \$24,000.	<a href="http://www.military.com/benefits/veteran-state-benefits/colorado-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/colorado-state-veterans-benefits.html</a>
<b>Connecticut</b>	A disabled veteran in Connecticut may receive a property tax exemption on his/her primary	<u>Educational Benefit/Tuition Waivers</u> State law provides that tuition and fees at state educational institutions be waived for certain veterans and dependents.	Connecticut veterans receiving federally taxable military retirement pay are eligible for an exemption from the state income	<a href="http://www.military.com/benefits/veteran-state-benefits/connecticut-state-">http://www.military.com/benefits/veteran-state-benefits/connecticut-state-</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	residence of \$1,500 if 10-25% disabled and \$3,000 if 75-100% disabled. In addition, a veteran that is blind in both eyes or lost the use of two or more limbs as a result of service is eligible for a \$10,000 exemption. Veterans that lost the use of one limb receive a \$5,000 exemption.		tax. Connecticut applies a 50% exemption from the state income tax on federally taxable military retirement pay to members of the U.S. Army, Navy, Air Force, Marines, Coast Guard, and Army and Air National Guard.	veterans-benefits.html
Delaware	There are currently no state-mandated property tax exemptions for disabled veterans in Delaware.	<u>Educational Benefits For Children of Deceased Veterans</u> Applicant shall be: the child of a member of the armed forces who was killed while on active duty or who died from disease, wounds, injuries or disabilities arising or resulting from performance of duty; a member of the armed forces who is being held, or who was held as a POW; or a member of the armed forces officially declared MIA; a person who at the time of application for benefits is at least 16 years of age, but not more than 24 years of age, and a resident of the State for at least 3 years prior to the date of application; attending or admitted for attendance at an educational institution beyond the high school level in a program not to exceed four years in duration	Persons under age 60 receiving pensions from employers, the United States, the State or any subdivision thereof, may deduct up to \$2,000 off of their federal adjusted gross income. Amounts received as pension by persons age 60 or older from employers, the United States, the State or any subdivision thereof may deduct up to \$12,500 off of their federal adjusted gross income.	<a href="http://www.military.com/benefits/veteran-state-benefits/delaware-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/delaware-state-veterans-benefits.html</a>
Florida	A disabled veteran in Florida may receive a property tax exemption of \$5,000 on any property he/she owns if 10% or more disabled and a full exemption if 100% disabled as a result of service.	<u>Tuition Waiver</u> Florida waives undergraduate-level tuition at state universities and colleges for Florida recipients of the Purple Heart and other combat-related decorations superior in precedence to the Purple Heart. <u>Reduced Tuition for National Guard</u> Active Florida Guard members in good standing as of June 30, 1997 are exempt from payment of one-half of tuition and fees. Individuals who enlist in the Guard after June 30, 1997 are eligible for full exemption of	Florida has no state income tax.	<a href="http://www.military.com/benefits/veteran-state-benefits/florida-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/florida-state-veterans-benefits.html</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
		tuition and fees. <u>Education for Children Of Deceased Or Disabled Florida Veterans</u> Florida also provides 4-year college educational opportunities for dependent children and spouses of veterans who died from a service connected disability or who are 100% percent service-connected totally and permanently disabled veterans of the U.S. Armed Forces.		
<b>Georgia</b>	A disabled veteran in Georgia may receive a property tax exemption of up to \$60,000 or more on his/her primary residence, depending on a fluctuating index rate set by the U.S. Secretary of Veterans Affairs.	<u>Georgia HERO Scholarship</u> The Georgia HERO (Helping Educate Reservists and their Offspring) Scholarship Program was created to provide educational grant assistance to members of the Georgia National Guard and U.S. Military Reservists who served in combat-zones or the children of such members of the Georgia National Guard and U.S. Military Reserves. The grant is to attend an approved school for a maximum of up to 4 award years in the sum of \$2,000.00 per award year. No person shall be eligible to receive grant assistance provided under this subsection in excess of \$8,000.00.	Georgia offers a \$35,000 exemption for retirees ages 62 to 64, and a \$65,000 exemption if 65 or older. Disabled Veterans are exempt from payment of occupational taxes, administration fees, and regulatory fees imposed by local governments for peddling, conducting a business, or practicing a profession or semi profession.	<a href="http://www.military.com/benefits/veteran-state-benefits/georgia-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/georgia-state-veterans-benefits.html</a>
<b>Guam</b>	Guam does not offer any military-specific property tax benefits.	Guam does not offer any military-specific education benefits.	Guam does tax military retirement pay.	<a href="http://myarmybenefits.us.army.mil/Home/Benefit_Library/State__Territory_Benefits/Territory_of_Guam.html">http://myarmybenefits.us.army.mil/Home/Benefit_Library/State__Territory_Benefits/Territory_of_Guam.html</a>
<b>Hawaii</b>	A disabled veteran in Hawaii may receive a full property tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service.	Hawaii does not offer any military-specific education benefits.	Hawaii does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/hawaii-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/hawaii-state-veterans-benefits.html</a>
<b>Idaho</b>	A disabled veteran in Idaho may receive a property tax exemption on	Idaho does not offer any military-specific education benefits.	Retirement benefits paid by the United States to a retired member of the U.S. Military or the un-	<a href="http://www.military.com/benefits/veteran-state-">http://www.military.com/benefits/veteran-state-</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	his/her primary residence if the veteran is 10% or more disabled as a result of service. The exemption amount is determined based on income.		remarried widow of such member if the recipient is age 65 or older, or disabled and age 62 or older is deductible. When stationed outside the State of Idaho, active duty personnel are exempt from Idaho state income tax	benefits/idaho-state-veterans-benefits.html
Illinois	A qualified disabled veteran in Illinois with a disability of at least 50% but less than 70% will receive a \$2,500 reduction in EAV, and a disabled veteran with a disability of at least 70% will receive a \$5,000 reduction in EAV under the Disabled Veterans' Standard Homestead Exemption. In certain cases veterans may receive a property tax exemption of up to \$75,000 of the assessed value of his/her primary residence.	<u>Veterans' Grant</u> The Illinois Veteran Grant (IVG) Program pays tuition and certain fees at all Illinois state-supported colleges, universities and community colleges for qualifying Illinois residents. <u>MIA/POW Scholarship</u> Dependents of a veteran who has been declared by the Department of Defense or U.S. Department of Veterans Affairs to be a prisoner of war; missing-in-action; to have died as the result of a service-connected disability; or be permanently disabled from service-connected causes with 100% disability; and, who was an Illinois resident or was an Illinois resident within six months of entering service may be eligible for the scholarship.	Illinois does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/illinois-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/illinois-state-veterans-benefits.html</a>
Indiana	A disabled veteran in Indiana may receive a property tax exemption of up to \$37,440 on his/her primary residence if the veteran is 100% disabled or is 62 years old or older with at least a 10% disability as a result of service.	<u>Free Tuition Program</u> Indiana offers free tuition at state schools to children under the age of 24 of disabled veterans, Purple Heart Recipients and their children, and children of former POW/MIA.	Indiana offers a \$5,000 exemption for military retirees/survivors age 60 or older.	<a href="http://www.military.com/benefits/veteran-state-benefits/indiana-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/indiana-state-veterans-benefits.html</a>
Iowa	A veteran in Iowa may receive a property tax exemption of \$1,850 on his/her primary residence if the veteran	<u>War Orphans Educational Aid</u> Children of Iowa veterans killed in action following September 11, 2001 are eligible for up to \$11,844.00 per year in tuition assistance at an Iowa post-secondary institution.	Federal retirement pay received for military service and survivor benefits are exempted from state individual income tax.	<a href="http://www.military.com/benefits/veteran-state-benefits/iowa-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/iowa-state-veterans-benefits.html</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	served on active duty during a period of war or for a minimum of 18 months during peacetime.	<u>Branstad/Reynolds Scholarship Fund</u> The fund provides post-secondary educational scholarships for children of deceased military service members who died while in an active military status after September 11, 2001.		
<b>Kansas</b>	A disabled veteran in Kansas may receive a property tax exemption on his/her primary residence if the veteran is 50% or more disabled as a result of service and meets income requirements.	Kansas does not offer any military-specific education benefits.	Military retirement pay is not taxed by the state.	<a href="http://www.military.com/benefits/veteran-state-benefits/kansas-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/kansas-state-veterans-benefits.html</a>
<b>Kentucky</b>	A disabled veteran in Kentucky may receive a property tax exemption of up to \$36,000 on his/her primary residence if the veteran is 100% disabled as a result of service.	<u>Tuition Waiver Program</u> The tuition waiver is provided for children, stepchildren, adopted children, spouses, and unremarried widow[er]s of KY veterans. An approved tuition waiver means a student may attend any two-year, four-year, or vocational technical schools that are operated and funded by Kentucky.	No state tax if retired before 1 Jan 1998, \$41,110 exemption if retired after 31 Dec 1997.	<a href="http://www.military.com/benefits/veteran-state-benefits/kentucky-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/kentucky-state-veterans-benefits.html</a>
<b>Louisiana</b>	A disabled veteran in Louisiana may receive a property tax exemption of up to the first \$150,000 of the assessed value of his/her primary residence if the veteran is 100% disabled as a result of service.	<u>Dependents Educational Assistance</u> Provides financial aid for children and surviving spouses of certain veterans of the state who died in service in the Armed Forces of the United States or died of a service connected disability incurred during a wartime period.	Military retirement benefits are exempt from Louisiana state taxes.	<a href="http://www.military.com/benefits/veteran-state-benefits/louisiana-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/louisiana-state-veterans-benefits.html</a>
<b>Maine</b>	A disabled veteran in Maine may receive a property tax exemption of up to \$6,000 on his/her primary residence if the veteran is 62 years or older or is 100% disabled.	Available to dependents of veterans who entered the service from Maine or have been a resident of Maine for 5 years immediately preceding application for the benefit. The veteran must be 100% service-connected, permanently and totally disabled, KIA, or died as a result of injuries suffered in-service.	Main offers a \$10,000 tax exemption for military retired pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/maine-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/maine-state-veterans-benefits.html</a>
<b>Maryland</b>	A disabled veteran in Maryland may receive a property	Spouses and children of veterans who died on active duty or as a result of a service-connected	Military retirees are exempt from Maryland income tax on the first	<a href="http://www.military.com/benefits/veteran-">http://www.military.com/benefits/veteran-</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service. The exemption amount is determined by the Maryland Department of Veterans Affairs.	disability or who are 100% service-connected disabled may qualify for education assistance.	\$5000 of their retirement income. In addition, military retirees who are over the age of 65, totally disabled, or who have a spouse who is totally disabled receive an additional subtraction.	state-benefits/maryl and-state-veterans-benefits.html
<b>Massachusetts</b>	A disabled veteran in Massachusetts may receive a property tax exemption on his/her primary residence of \$400 if 10% disabled, \$750 if the veteran lost the use of one hand, one foot or one eye, \$1,250 if the veteran lost the use of both hands, both feet or a combination of the two, or if the veteran is blind in both eyes as a result of service. A veteran may receive a \$1,000 exemption if 100% disabled as a result of service.	Veterans of Massachusetts can be eligible for a tuition waiver at any state-supported course in an undergraduate degree program offered by a public college or university. To be eligible, a veteran must also be a legal resident of Massachusetts and he/she must not be in default of any federal student loans. <u>Tuition and Fee Waivers for Guard Members</u> The Massachusetts National Guard Education Assistance Program provides a 100% tuition and fee waiver for Massachusetts National Guard soldiers attending a state college, university, or community college program.	Massachusetts does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/massachusetts-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/massachusetts-state-veterans-benefits.html</a>
<b>Michigan</b>	A disabled veteran in Michigan may receive a full property tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service.	Michigan provides an annual undergraduate tuition grant of up to \$2,800 for the eligible children of certain deceased military personnel or totally and permanently disabled veterans.	Michigan does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/michigan-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/michigan-state-veterans-benefits.html</a>
<b>Minnesota</b>	A disabled veteran in Minnesota may receive a property tax exemption of up to \$300,000 on his/her primary residence if the veteran is 100% disabled as result of service. Veterans with a	<u>Minnesota GI Bill</u> Available to Minnesota Veterans who served honorably in any branch at any time; non-veterans who served honorably for a cumulative total of 5 years or more as a member of the MN National Guard or any other active or reserve component and had active service after September 11, 2001; or eligible	Minnesota does tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/minnesota-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/minnesota-state-veterans-benefits.html</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	disability rating of 70% or more may receive an exemption of up to \$150,000.	spouses, surviving spouses, and children of permanently and totally disabled veterans who are eligible for the Federal GI Bill under Chapters 33 or 35.		
<b>Mississippi</b>	A disabled veteran in Mississippi may receive a property tax exemption on his/her primary residence if the assessed value is \$7,500 or less and the veteran is 100% disabled as a result of service.	Children of any member of the armed services whose official home of record is in Mississippi and who is officially reported as being either a POW or MIA can receive an eight-semester scholarship, without cost, exclusive of books, food, school supplies, materials and dues or fees for extracurricular activities at any state supported college or university within the State.	Mississippi does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/mississippi-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/mississippi-state-veterans-benefits.html</a>
<b>Missouri</b>	A disabled veteran in Missouri may receive a property tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service.	<u>Missouri Returning Heroes' Education Act</u> This act limits the tuition to no more than \$50 per credit hour at public colleges and universities while enrolled in an undergraduate certificate or degree program after all other financial aid is taken into account. It is applicable to combat Veterans who served after September 11, 2001. Veteran remains eligible for ten years after honorable discharge.	Beginning January 1, 2016, all military retirement pension income will be exempt from state taxes.	<a href="http://www.military.com/benefits/veteran-state-benefits/missouri-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/missouri-state-veterans-benefits.html</a>
<b>Montana</b>	A disabled veteran in Montana may receive a property tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service. The exemption amount varies based on income and marital status.	<u>Montana Honorably Discharged Veteran Tuition Waiver</u> The Montana Honorably Discharged Veteran Tuition Waiver eliminates tuition costs charged to a qualifying veteran-students.	Montana exempts the first \$3,600.00 of retired military pay from income tax as long as the federal adjusted gross income is \$30,000 or less when filing a single return, or filing jointly with a spouse and only one has taxable retirement income, or when filing as head of household.	<a href="http://www.military.com/benefits/veteran-state-benefits/montana-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/montana-state-veterans-benefits.html</a>
<b>Nebraska</b>	A disabled veteran in Nebraska may receive a property tax exemption on his/her primary residence if the veteran has lost the use of two or more limbs or has suffered severe eyesight loss as a result of service.	<u>Waiver of Tuition</u> The University of Nebraska, the state colleges, and community colleges on behalf of any eligible child, spouse, widow or widower that meets certain requirements may waive tuition. The waiver shall be valid for one degree, diploma, or certificate from a community college and one baccalaureate degree.	Nebraska allows tax payers who retired after July 18, 2014 the option to exclude 40% of their military retirement income for 7 taxable years or to exclude 15% until they turn 67. All other income is taxable.	<a href="http://www.military.com/benefits/veteran-state-benefits/nebraska-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/nebraska-state-veterans-benefits.html</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
Nevada	A disabled veteran in Nevada may receive a property tax exemption of up to \$20,000 of the assessed value of his/her primary residence if the veteran is 60% or more disabled as a result of service.	Spouse and children of veterans killed in the line of duty are eligible for in-state tuition benefits.	Nevada does not have personal income tax.	<a href="http://www.military.com/benefits/veteran-state-benefits/nevada-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/nevada-state-veterans-benefits.html</a>
New Hampshire	A disabled veteran in New Hampshire may receive a full property tax exemption on his/her primary residence if the veteran is 100% disabled, has lost two or more limbs or is blind in both eyes as a result of service.	<u>Free Tuition at Vocational-Technical College</u> The child of a missing Service member who was domiciled in this State serving after February 28, 1961, is entitled to free tuition at vocational-technical college so long as said missing person is so reported/listed as missing, captured, etc. <u>Free Tuition for Surviving Children of Military</u> Children of servicemembers who die in service during wartime, and children of certain wartime veterans who die from a service-connected disability, may qualify for free tuition at New Hampshire public institutions of higher learning. A scholarship for board, room, rent, books and supplies up to \$2,500 per year for a period of no more than 4 years at such educational institutions may be furnished.	New Hampshire does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/new-hampshire-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/new-hampshire-state-veterans-benefits.html</a>
New Jersey	A disabled veteran in New Jersey may receive a full property tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service.	<u>War Orphans Tuition Assistance</u> Children of servicemembers who died while in the military or due to service-connected disabilities, or who are officially listed as MIA may claim \$500 per year for 4 years of college or equivalent training. <u>POW and MIA Tuition Benefits</u> Free undergraduate tuition is available to any child born or adopted before, during or after the period of time his or her parent was officially declared a POW or MIA after Jan. 1, 1960.	U.S. military pension and survivor's benefit payments are not taxable for New Jersey gross income tax purposes, regardless of the recipient's age or disability status.	<a href="http://www.military.com/benefits/veteran-state-benefits/new-jersey-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/new-jersey-state-veterans-benefits.html</a>
New Mexico	A disabled veteran in New Mexico may receive a full property tax exemption on his/her primary residence if the	<u>Children of Deceased Veterans</u> Children between the ages of 16-26 whose veteran parent was killed in action or died as a result of their wounds incurred in battle, qualify for a full tuition waiver at any state funded post-	New Mexico offers a low- and middle-income exemption. The maximum exemption is \$2,500. To qualify, the amount on line 7 of the state income tax form	<a href="http://www.military.com/benefits/veteran-state-benefits/new-mexico-state-">http://www.military.com/benefits/veteran-state-benefits/new-mexico-state-</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	veteran is 100% disabled as a result of service.	secondary school. A \$150 stipend, per semester, will be issued to help with books or fees. <u>Wartime Veteran Scholarship Fund</u> Can be used by any veteran who has served in combat since 1990 and who has exhausted all available federal G.I. Education Benefits options.	must be equal to or less than \$36,667 (single), \$27,500 (married filing separately), or \$55,000 (married filing jointly). A deduction also applies for those 65 and older if adjusted gross income is not over \$51,000 for a joint return, \$28,500 for a single taxpayer, or \$25,500 for a married filing separately.	veterans-benefits.html
<b>New York</b>	A disabled veteran in New York may receive a property tax exemption on his/her primary residence. The exemption amount varies based on type of service and disability, as determined by the New York State Division of Veterans Affairs.	Veterans Tuition Awards (VTA) are awards for full-time and part-time study for eligible veterans matriculated at an undergraduate or graduate degree-granting institution or in an approved vocational training program in New York State. <u>New York State Regents Awards (for Children)</u> Regents Awards for Children of Deceased & Disabled Veterans provide up to \$450 per year to students whose parent(s) served in the US Armed Forces during specified times of national emergency. <u>Military Service Recognition Scholarship</u> Available to certain dependents of military personnel killed, severely and permanently disabled or missing in combat or a combat-zone of operation since August 2, 1990.	New York does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/new-york-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/new-york-state-veterans-benefits.html</a>
<b>North Carolina</b>	A disabled veteran in North Carolina may receive a property tax exemption of up to the first \$45,000 of the appraised value of his/her primary residence if the veteran is 100% disabled as a result of service.	A 4-year scholarship program at approved schools in North Carolina has been established for the qualifying natural or adopted (before age 15) children of certain class categories of deceased, disabled, combat or POW/MIA veterans	North Carolina allows military members to receive a deduction up to \$4,000 (\$8,000 on joint returns) for military pay or survivor's benefits. Those with 5 years of service since August 12, 1989 are fully exempt.	<a href="http://www.military.com/benefits/veteran-state-benefits/north-carolina-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/north-carolina-state-veterans-benefits.html</a>
<b>North Dakota</b>	A disabled veteran in North Dakota may receive a property tax exemption of up to the first \$120,000 on his/her primary residence if the	<u>Veterans Educational Training</u> is a free program of study funded by the state to prepare veterans for a certification program, two-year or four-year college degree. <u>Free Tuition to qualified Dependents in North Dakota</u> <u>Institution of Higher Education</u>	North Dakota excludes \$5,000 from military pensions, minus the amount of Social Security received. Out-of-state government pensions are fully taxed.	<a href="http://www.military.com/benefits/veteran-state-benefits/north-dakota-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/north-dakota-state-veterans-benefits.html</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	veteran is 50% or more disabled as a result of service.	Any dependent of a resident veteran who was KIA or died from wounds or other service-connected causes, was totally disabled as a result of service-connected causes, died from service-connected disabilities, was a POW, or was declared MIA will be allowed to obtain a bachelor's degree or certificate, for so long as the dependent is eligible, free of any tuition and fee charges.		
<b>Ohio</b>	A disabled veteran in Ohio may receive a property tax exemption of \$50,000 on his/her primary residence if the veteran is 100% disabled as a result of service.	<u>Ohio War Orphans Scholarship</u> The Ohio War Orphans Scholarship Program awards tuition assistance to the children of deceased or severely disabled Ohio veterans who served in the armed forces during a period of declared war or conflict.	Ohio does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/ohio-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/ohio-state-veterans-benefits.html</a>
<b>Oklahoma</b>	A disabled veteran in Oklahoma may receive a full property tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service.	Oklahoma does not offer any military-specific education benefits.	Oklahoma waives the greater of \$10,000 or 75 percent of retirement income from taxation for retired service members.	<a href="http://www.military.com/benefits/veteran-state-benefits/oklahoma-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/oklahoma-state-veterans-benefits.html</a>
<b>Oregon</b>	A disabled veteran or surviving spouse in Oregon may receive a property tax exemption on his/her primary residence if the veteran is 40% or more disabled as a result of service. The exemption amount varies annually according to income.	<u>Veterans' Dependent Tuition Waiver</u> This benefit is offered by the State of Oregon University System and local community colleges and provides a full tuition waiver (not fees) for a bachelor's or master's degree at an OUS institution for a child or spouse of a member of the United States Armed Forces who either died in active duty, became 100% disabled in connection with military service, or died as a result of a disability sustained in active duty.	Oregon military retirees may be eligible for a tax waiver.	<a href="http://www.military.com/benefits/veteran-state-benefits/oregon-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/oregon-state-veterans-benefits.html</a>
<b>Pennsylvania</b>	A disabled veteran in Pennsylvania may receive a property tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service. The	<u>Educational Gratuity</u> Payment of educational gratuities are for children of honorably discharged veterans who have wartime service-connected disabilities rated as totally and permanently disabled or children of veterans who die or have died of war service-connected disabilities or died in service	Pennsylvania does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/pennsylvania-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/pennsylvania-state-veterans-benefits.html</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	exemption amount varies.	during a period of war or armed conflict. Children must be between the ages of 16 and 23, living within the Commonwealth five years prior to application and must attend a school within the Commonwealth. Applicants must demonstrate financial need, the maximum gratuity amount is \$500/semester.		
<b>Puerto Rico</b>	There are several types of property tax exemptions, each with its own eligibility criteria and level of exemption ranging from \$500 and up.	The Commonwealth of Puerto Rico offers several programs to assist military veterans who wish to pursue education or vocational training. One such program covers the cost of education when not otherwise qualified for the GI Bill or when the GI Bill benefit ends.	Every veteran shall be entitled to a deduction in the amount of \$500 for life.	<a href="http://www.military.com/benefits/veteran-state-benefits/commonwealth-of-puerto-rico-veteran-benefits.html">http://www.military.com/benefits/veteran-state-benefits/commonwealth-of-puerto-rico-veteran-benefits.html</a>
<b>Rhode Island</b>	A disabled veteran in Rhode Island may receive a property tax exemption on his/her primary residence. The exemption amount varies based on city and the value of the property.	Gratuities of \$500.00 per semester for children of veterans who died in service during a period of war or conflict or have a 100% permanent service-connected disability.	Rhode Island taxes military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/rhode-island-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/rhode-island-state-veterans-benefits.html</a>
<b>South Carolina</b>	A disabled veteran in South Carolina may receive a property tax exemption if the veteran is 100% disabled as a result of service.	<u>Education Assistance (Fee tuition for certain veteran's children)</u> Provides for free tuition to the children of certain war veterans attending South Carolina state colleges and universities as well as state supported post high school technical education institutions.	South Carolina retirees with 20 or more years of active duty can deduct up to \$3,000 annually until age 65 and up to \$10,000 per year after age 65.	<a href="http://www.military.com/benefits/veteran-state-benefits/south-carolina-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/south-carolina-state-veterans-benefits.html</a>
<b>South Dakota</b>	A disabled veteran in South Dakota may receive a property tax exemption of up to \$100,000 of his/her primary residence if the veteran is 100% disabled as a result of service.	<u>Free Tuition for Veterans</u> Certain veterans are eligible to take undergraduate courses at a state university without the payment of tuition provided they are not eligible for educational payments under the GI Bill or any other federal educational program. <u>Free Tuition for Children of Veterans Who Die During Service</u> Children who are under the age of 25, are residents, and whose mother or father was KIA or died of other causes while on active duty, are eligible for free tuition at a state supported school, if the deceased	South Dakota does not have state personal income tax.	<a href="http://www.military.com/benefits/veteran-state-benefits/south-dakota-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/south-dakota-state-veterans-benefits.html</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
		parent was a resident of the state for at least six months immediately preceding entry into active service.		
Tennessee	A disabled veteran in Tennessee may receive a property tax exemption of up to the first \$100,000 of his/her primary residence if the veteran is 100% disabled, has lost the use of two or more limbs, or is blind in both eyes as a result of service.	A dependent child (under 23 years of age) or spouse is entitled to receive free tuition, maintenance fees, student activity fees, registration fees, and to be admitted without cost to any of the colleges or universities owned, operated and maintained by the State, whose parent died as a result of injuries received while a POW or MIA while serving as a member of the Armed Forces during an armed conflict.	Tennessee does not tax personal income; it taxes dividend and interest income only.	<a href="http://www.military.com/benefits/veteran-state-benefits/tennessee-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/tennessee-state-veterans-benefits.html</a>
Texas	A disabled veteran in Texas may receive a property tax exemption of up to \$12,000 on his/her primary residence, depending on the severity of the disability incurred as a result of service. A full property tax exemption is available for veterans who are 100% disabled as a result of service.	<u>The Hazlewood Act</u> Provides qualified veterans, spouses, and dependent children with an education benefit of up to 150 hours of tuition and fee exemptions at public institutions of higher education in Texas. This does NOT include living expenses, books, or supply fees. <u>Legacy Act (Child)</u> Eligible veterans may assign unused hours of exemption eligibility to a child under certain conditions. <u>Hazlewood Act for Spouse/Child</u> Spouses and dependent children of eligible Active Duty, Reserve, and Texas National Guard who died in the line of duty or as a result of injury or illness directly related to military service, are MIA, or who became totally disabled as a result of a service-related injury or illness are entitled to each receive a 150 credit hours exemption.	Texas does not have personal income tax.	<a href="http://www.military.com/benefits/veteran-state-benefits/texas-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/texas-state-veterans-benefits.html</a>
Utah	A disabled veteran in Utah may receive a property tax exemption on his/her primary residence if the veteran is 10% or more disabled as a result of service. A veteran that is 100% disabled may receive an exemption of	<u>Tuition Waiver for Purple Heart Recipients</u> Purple Heart recipients are eligible for a tuition waiver at all public institution of higher learning in Utah. This benefit can be used toward a degree up to and including a Master's Degree. <u>Scott B Lundell Tuition Waiver for Military Members' Surviving Dependents</u> Surviving dependents of servicemembers killed in action	Utah treats military retirement income as taxable income. A taxpayer of 65 may claim a non-refundable tax credit of up to \$450.	<a href="http://www.military.com/benefits/veteran-state-benefits/utah-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/utah-state-veterans-benefits.html</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	\$244,064. A veteran that is 50% disabled may receive an exemption of \$122,032, while a veteran that is 10% disabled may receive an exemption of \$24,406.	on or after September 11, 2001 are eligible for a tuition waiver at state schools.		
<b>U.S. Virgin Islands</b>	Homestead tax exemption of up to \$650.00 from the Real Property Tax Bill is offered to veterans who occupy their primary residence.	Free tuition is offered for attendance at local public educational institutions and the University of the Virgin Islands. This program is for veterans who entered the Armed Forces while residing in the Virgin Islands.	The Virgin Islands taxes military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/virgin-island-vet-benefits.html">http://www.military.com/benefits/veteran-state-benefits/virgin-island-vet-benefits.html</a>
<b>Vermont</b>	A disabled veteran in Vermont may receive a property tax exemption of at least \$10,000 on his/her primary residence if the veteran is 50% or more disabled as a result of service. The exemption amount varies by city.	Vermont does not offer any military-specific educational benefits.	Vermont taxes military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/vermont-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/vermont-state-veterans-benefits.html</a>
<b>Virginia</b>	A disabled veteran in Virginia may receive a full property tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service.	<u>Virginia Military Survivors and Dependents Education Program</u> Provides education benefits to spouses and children of servicemembers killed, MIA, taken prisoner, or who became at least 90% disabled as a result of military service in an armed conflict. Military service includes active duty and reserve component service. Armed conflict includes military operations against terrorism or as the result of a terrorist act, a peace-keeping mission, or any armed conflict after December 6, 1941. This program may pay for tuition and fees at any state school for up to 4 years.	Virginia taxes military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/virginia-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/virginia-state-veterans-benefits.html</a>
<b>Washington</b>	A disabled veteran in Washington may receive a property tax exemption on	Washington does not offer any military-specific education benefits.	Washington does not have personal income tax.	<a href="http://www.military.com/benefits/veteran-state-benefits/washi">http://www.military.com/benefits/veteran-state-benefits/washi</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	his/her primary residence if the veteran is 100% disabled as a result of service. The exemption amount is based on income.			<a href="http://www.military.com/benefits/veteran-state-benefits.html">military.com/benefits/veteran-state-benefits.html</a>
<b>West Virginia</b>	A 100% disabled veteran or any veteran over the age of 65 is exempted from paying the taxes on the first \$20,000 of assessed value on a self-occupied property.	<u>Veterans Re-Education Act Fund</u> Provides tuition assistance to veterans who need a new vocation due to dislocation or unemployment. The veteran must have exhausted the G. I. Bill and be in need of tuition assistance. <u>State War Orphans Education</u> Provides for a waiver of tuition and fees in state schools for children between the ages of 16 and 23 whose veteran parent served in World War I, World War II, Korean Conflict, Vietnam Era or any time of conflict as declared by Congress. Parent must have died in such wartime period, or, if subsequent to discharge, death must have been the result of disability incurred in such wartime service.	West Virginia waives up to \$2,000 from taxes for military retirees.	<a href="http://www.military.com/benefits/veteran-state-benefits/west-virginia-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/west-virginia-state-veterans-benefits.html</a>
<b>Wisconsin</b>	A disabled veteran in Wisconsin may receive a property tax exemption on his/her primary residence if the veteran is 100% disabled as a result of service. The exemption amount varies.	<u>Wisconsin G.I. Bill for Veterans</u> Provides a full waiver of tuition and fees for eligible veterans and their dependents for up to 8 full-time semesters or 128 credits (whichever is greater) at any University of Wisconsin System for any degree seeking courses, or for study at the undergraduate, masters or even doctoral level at the UW System.	Wisconsin does not tax military retirement pay.	<a href="http://www.military.com/benefits/veteran-state-benefits/wisconsin-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/wisconsin-state-veterans-benefits.html</a>
<b>Wyoming</b>	A disabled veteran in Wyoming may receive a property tax exemption of \$3,000 of the assessed value of his/her primary residence if the veteran was disabled as a result of service.	<u>Free Tuition and Fees for Education of War Orphans and Veterans</u> Wyoming provides 10 free semesters of tuition and fees for overseas combat veterans at the Wyoming community colleges or the University of Wyoming. Surviving spouses and dependent children are also eligible for this benefit if the military member died in combat.	Wyoming does not have personal income tax.	<a href="http://www.military.com/benefits/veteran-state-benefits/wyoming-state-veterans-benefits.html">http://www.military.com/benefits/veteran-state-benefits/wyoming-state-veterans-benefits.html</a>
<b>Washington D.C.</b>	Citizens age 65 or older or those who are totally or partially disabled may qualify for a	There are no veteran-specific education benefits. <u>State Tuition Program</u> The DC National Guard Scholarship will reimburse members of the Army DC	Up to \$3,000 of military retirement pay is exempt from District Individual Income Tax for individuals 62 or older.	<a href="http://ova.dc.gov/">http://ova.dc.gov/</a>

State/ Territory	Property Tax	Education Benefits	Income Tax	Resources
	50% property tax abatement.	National Guard up to \$1,500 per individual during any semester or quarter at an approved college, university or educational institution while monies are available.	Survivor benefits are fully excluded from District Individual Income Tax.	

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Appendix B. Designated Combat-Zones, Qualified Hazardous Duty Areas, & Areas Providing Direct Support to Military Operations

Designated Combat- Zones	Authority	Dates	Direct Support Areas	Authority	Dates
<b>Afghanistan</b>	EO 13239	19 Sept. 2001–Present	Jordan	DoD	19 Sept. 2001–Present
			Kyrgyzstan		19 Sept. 2001–31 May 2014
			Pakistan		19 Sept. 2001–Present
			Tajikistan		19 Sept. 2001–31 May 2014
			Uzbekistan		19 Sept. 2001–31 May 2014
			Philippines (with OEF orders)		9 Jan. 2002–30 Sept. 2015
			Djibouti		1 July 2002–Present
			Yemen		10 Apr. 2002–Present
			Somalia		1 Jan. 2004–Present
			Syria		1 Jan. 2004–Present
<b>Arabian Peninsula Area</b>	EO 12744	17 Jan. 1991–Present	Jordan	DoD	19 Mar 2003–Present
Iraq			Lebanon		12 Feb. 2015–Present
Kuwait					
Saudi Arabia					
Oman					
Bahrain					
Qatar					
United Arab Emirates					
Persian Gulf					
Red Sea					
Gulf of Oman					
Gulf of Aden					
The part of the Arabian Sea that is north 10 degrees north latitude and west of 68 degrees east longitude					
			<b>Qualified Hazardous Duty Areas</b>		
<b>Kosovo Area</b>	EO 13119	24 Mar. 1999–Present	Bosnia & Herzegovina	PL 104-117	21 Nov. 1995–Present
Federal Republic of Yugoslavia			Croatia		21 Nov. 1995–Present

Montenegro			Macedonia		21 Nov. 1995–Present
Serbia					
Albania					
Ionian Sea – north of the 39th parallel					
Adriatic Sea					

*Sources:*

I.R.S. Armed Forces Tax Guide, Publication 3 Cat. No. 46072M, 9-10 (Jan. 14, 2015).

*Combat Zones*, IRS.GOV (Mar. 20, 2015), <https://www.irs.gov/uac/Combat-Zones>.