



PROFESSIONAL JUDGMENT

TOPIC: Combat Pay

IM STANDARD TREATMENT

The IM standard treatment collects combat pay included in the AGI in order to exclude it from the total income and does not treat any portion of combat pay as untaxed income.

FM STANDARD TREATMENT

The FM standard treatment is the same as the IM.

EXPLANATION OF COMBAT PAY

What is it?

Combat pay is paid to members of the U.S. Armed Forces who serve in a combat zone. Combat zones are currently defined as: Afghanistan area, Kosovo area, and the Persian Gulf (which includes the total land area of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates).

Military members serving in these areas have their active duty pay earned in any month excluded from their taxable income and reported in the W-2, Box 12, as code Q. Soldiers who were hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone are also eligible to receive combat pay. If the soldier serves a single day of a month in a combat zone, all of the pay received for that month is considered combat pay.

Who gets it?

Military members eligible for their combat pay to be fully excluded are enlisted members, warrant officers, and commissioned warrant officers. Commissioned officers (other than commissioned warrant officers) are eligible to exclude an amount of their combat pay to that of the highest rate of enlisted pay. The balance of income is included in the W-2, Box 1, and therefore is included in the AGI. (This "taxable" combat pay is the amount that is to be excluded from income.)

The highest level of enlisted pay is for an E-9. At 18 or more years of service, the base pay of an E-9 is \$ 5267.70 per month starting January 1, 2012. Additionally, this person is eligible for additional monthly pay of \$225 for Hostile Fire Pay/Imminent Danger Pay. Someone at this pay grade, deployed in a combat zone for a full 12 months, will receive a total of \$5,492.70 per

month, for an annual payment of \$65,912.40. A commissioned officer (other than commissioned warrant officers) at this pay grade (O-1 to O-8 with 18 or more years of service) will have up to \$65,912 excluded from their taxable income. These officers generally earn from \$4,643.70 to \$12,712.80 per month (both including the additional \$225 per month).

How do I know if it is taxable?

For most members of the military, the amount of untaxed combat pay is clearly identified since it is reported in the W-2, Box 12, as code Q. The amount reported in the W-2, Box 1 is the amount to be reported on line 7 of the IRS tax return and is included in the AGI. As stated before, only commissioned officers (other than commissioned warrant officers) may have some of their combat pay included in Box 1.

It should be noted that both Box 3 and Box 5 of the W-2 may include the full amount of earnings, without regard to excludable combat pay, so combat-deployed members of the military may still pay the full FICA and Medicare taxes on their earnings.

WHY PROFESSIONAL JUDGMENT MIGHT BE APPROPRIATE

The current treatment of combat pay recognizes both the significant sacrifice that combat-deployed members of the military make as well as the increased stress on the soldier's family. It must also be recognized that many members serving in combat zones are reservists, who were fully employed in the general workforce, and now face a loss or reduction of family income, of which the taxable exclusion is often a small off-set.

Still, there is a question of inequity, since two soldiers serving at the same time, and doing the same job, but with one deployed in a combat zone and the other not, will have their incomes treated very differently in the need analysis. Additionally, not every designated combat zone is an active war zone. Areas in the Middle East other than Afghanistan and Iraq as well as the Kosovo area, while subject to unrest and with a higher level of danger than in European and US bases, are not active war zones, but are still designated as combat zones. The Department has even identified that military personnel in Afghanistan and Iraq only are eligible for the auto-maximum Pell or an equally valued new federal grant. Military personnel on ships patrolling the waters around the Middle East are eligible for combat pay once they enter the combat zone designated waters, but those patrolling the waters near North Korea are not.

HOW IM COULD BE ADJUSTED

An aid officer could opt to include all of the combat pay as income, as appropriate, in determining the family's ability to pay. Alternately, an aid officer might opt to allow combat pay to continue to be excluded only for those families with a soldier in an active combat zone and deemed eligible for the auto-maximum full Pell or the equally valued new federal grant.

HOW FM COULD BE ADJUSTED

No adjustment can be made to FM regarding combat pay.

HOW COLLEGE BOARD SERVICES SUPPORT PJ

CSS/Financial Aid PROFILE

Review the parents' occupation and employer in the Parent Data (PD) Section

Refer to Explanations/Special Circumstances (ES) Section for explanations about a deployed family member

Institutions may request a Supplemental Question that collects additional information on military families to determine their status

Institutional Documentation Service (IDOC)

The W-2 is keyed and imaged

- Review Boxes 1 and 5 for significant differences
- Review Box 12 for the presence of a code Q

DOCUMENTATION

All changes should be documented.

The aid administrator may want to collect:

- W-2s
- Copies of the soldier's deployment papers

HELPFUL LINKS

IRS Armed Forces' Tax Guide: <http://www.irs.gov/pub/irs-pdf/p3.pdf>

Military Pay Scales Chart: http://www.militaryfactory.com/military_pay_scale.asp