2025 Tax Updates: What Service Providers Need to Know Q&A

February 11, 2025 11:00-12:30

https://oneop.org/learn/160064/

1. **Question:** Hostile fire and imminent danger pay not taxable in CZTE correct?
   Answer: That's correct. These pays are not taxable in a combat zone.

2. **Question:** Could you explain the rate that special pays i.e. bonus would be taxed?
   Answer: DFAS generally includes the special pays in the tax withholding rates based upon wages, at the Service member's tax rate.

3. **Question:** What impact does military move (PCS) and Reserve travel cost for training have on Taxes?
   Answer: Service members on active duty who move because of a permanent change of station, are able to deduct moving expenses and remain exempt from the traditional time and distance tests, in order to deduct unreimbursed moving expenses. However, if the total reimbursements they receive are greater than their actual moving expenses, the excess may be included in their wages on their Form W-2. But even if it is not, they must report the excess as part of their gross income on Form 1040. Members of the National Guard or a Reserve Component who travel overnight more than 100 miles away from home in connection with the performance of services can deduct their travel expenses as an adjustment to income on the first page of the Form 1040. Qualifying expenses for these National Guard and Reservists can include meals, transportation, and lodging expenses. The deduction is limited to the amount the federal government pays its employees for their travel expenses.

4. **Question:** Will airline fares be included in Reserve Component for travel to drill or only car?
   Answer: The cost of airfare is allowed to be taken as an adjustment to income.

5. **Question:** Do income limits still apply to IRA contributions?
   Answer: Income limits for Roth IRA contributions depend on your modified adjusted gross income (MAGI) and your tax filing status. Roth IRA income limits for 2025 include: Single filers must have a MAGI of less than $150,000; joint filers must have a MAGI of less than $236,000. There are no income limits for traditional IRA contributions.

6. **Question:** Would you please give an example of the Qualified reservist distribution?
   Answer: A qualified reservist distribution is a withdrawal from a retirement plan by a Reservist called to duty, who does not incur the usual early distribution penalty. Under most circumstances, the IRS imposes a penalty of 10% on the taxable amount withdrawn from a retirement account by a taxpayer younger than 59½ years old. Qualified reservists are rare exceptions to this rule. To qualify, reservists must be ordered or called to active duty after Sept. 11, 2001, for more than 179 days or an indefinite period. Distributions need to be either from an individual retirement account (IRA) or from employees' elective deferrals to a 401(k), 457, or 403(b). Also, distributions must be during the period of active duty.

7. **Question:** Is this taxable? For AZ, the State reports tuition educational assistance on form 1099 NEC (Non-Employee Compensation) for reimbursements provided under the AZ State Tuition program for all amounts including amounts under $5250

   Answer: You may exclude certain educational assistance benefits from your gross income if they are provided under a section 127 educational assistance program. That means that you won't have to pay any tax on the amount of benefits up to $5,250 per calendar year and your employer should not include the benefits with your wages, tips and other compensation. However, it also means that you can't use any of the tax-free education expenses as the basis for any other deduction or credit, including the lifetime learning credit.

8. **Question:** Is there a list of authorized combat zones for 2024?

   Answer: The combat zones we discussed during the brief are all authorized combat zones for 2024. Please see slides, as the areas that receive the CZTE include combat zones designated by executive order, direct support areas designated by the Secretary of Defense, and qualified hazardous duty areas designated by public law.

9. **Question:** Awesome presentation. I might have misheard this but the closed caption showed the 10% early distribution penalty doesn't apply to reservist who is called to active duty for more than 170 days. I think it is 179 days. Just wanted to double-check if you may clarify that. Thank you very much. Love your presentation! Great information.

   Answer: Thank you! You are correct – it's 179 days.

10. **Question:** Could you please provide an example when the Hostile Fire/Imminent Danger pay is taxable? Thank you.

    Answer: Here are several countries in which Service members who are stationed there receive Hostile Fire/Imminent Danger Pay, without the CZTE benefit: Burkina Faso, Columbia, Chad, Congo, Cameroon (Far North and North), City of Rangoon in Burma, Haiti, and Kenya.

11. **Question:** Is a public law written or published when an area is no longer qualifies as a QHDA by previous public law?

    Answer: I am unaware of a public law establishing a QHDA that has been repealed.

12. **Question:** Many service members consider renting out their home at a former base of assignment when they PCS to a new duty station. Then later they want to know about the cap gain exclusion, AFTER they rented out their former home for several years. Can you talk about the impact of operating a former home as a rental business, and how time as a rental pro-rates the portion of capital gains that will be assessed upon eventual sale of the rental property?

    Answer: As long as the Service member is on qualified extended duty and has owned and used the home as their principle residence for at least two (aggregated) of the previous 15 years (which includes the 10 years of suspension), they should be allowed to exclude up to $250,000 of gain ($500,000 for joint filers. You may still qualify for a partial exclusion of gain, if you sell the home after the 15 years. See IRS Publication for worksheet to figure exclusion and for additional information.

13. **Question:** For the real estate exclusion for military, does this expire immediately upon retirement / separation or can those veterans still use the rule if they were away from the property due to active duty orders?
    Answer: Yes, at retirement, you will not longer be eligible for the 10-year suspension; however, you will benefit from the time you owned the home while on qualified extended duty and may still qualify for a partial exclusion of gain. You are on qualified extended duty if you are called or ordered to active duty for an indefinite period, or for a definite period of more than 90 days; you are serving at a duty station at least 50 miles from your main home, or you are living in government quarters under government orders; and you are a member of the armed forces (Army, Navy, Air Force, Marine Corps, Space Force, Coast Guard).

14. **Question:** (slide 22, Abatement of Tax in Case of Death) Would it be easier to file separately for that year that the service member died?
    Answer: No, there is no benefit to filing separately for that year. The tax abatement is the portion of the joint liability measured by the ratio of the taxes computed separately upon the income of each spouse, which can be determined fairly easily.

15. **Question:** If death was due to burn pit or ptsd but died stateside, does the abatement apply?
    Answer: For toxic-exposed veterans, the PACT Act added more than 20 presumptive conditions related to toxic exposures, including certain cancers, asthma and other respiratory conditions, so that these Service members and their families could receive VA benefits. I'm unaware that this has been extended to .

16. **Question:** (slide 22, Abatement of Tax in Case of Death) How far back can the abatement go ...3 yrs?
    Answer: It can go back much further than 3 years, depending on the Service member's previous deployments to combat zones, in which the tax filing extensions applied. This is in addition to accounting for the period for filing a refund claim is suspended by the period of combat zone service, plus the period of continuous qualified hospitalization from a combat service injury, plus an additional 180 days. If you have a situation in which a Service member died while in a combat zone or due to injuries sustained while in a combat zone, I would encourage you to reach out to the Executive Director of the Armed Forces Tax Counsel, susan.e.mitchell2.civ@mail.mil, to provide starting and ending dates of all deployments to combat zones for the Service member.

17. **Question:** Does it matter if you get a driver's license in the state that you are stationed at?
    Answer: That, by itself, should not signal to the state taxing authorities, that you are a resident of that state. However, states vary on how strictly they determine residency. If you have other indicia of residency in that state (i.e, registering to vote, registering your vehicle, taking advantage of in-state tuition, claiming a homestead tax exemption, etc), the state taxing authorities may successfully argue you must pay state taxes on any income you earned in the state.

18. **Question:** (slide 26, Military Spouse State Residency for Tax Purposes) Do they have to claim the same one state?
    Answer: The IRS interprets 50 USC 4001(a)(3) as requiring the spouse and Service member to choose the same domicile to take advantage of SCRA protections, instead of choosing one state for purposes of establishing in-state residency and another state to benefit from having no tax liability or lower tax liability.

19. **Question:** What is the point-of-contact for additional questions on slide 26 (Military Spouse State Residency for Tax Purposes) ?
    Answer: Please feel free to contact oneoppersonalfinance@gmail.com

20. **Question:** Does the spouse need to complete form 2058 to change their state residency along with the servicemember?
    Answer: No, just the Service member is required to complete the DD Form 2058.

21. **Question:** Do state taxes still need to be filed in the Home of Record state, if a MFJ couple choose to file in the duty station state that is different from the HOR?
    Answer: By HOR, you likely mean legal residence or domicile. Your HOR should not be confused with your state of legal residence/domicile, as HOR is used for fixing travel and transportation allowances. Assuming you are asking whether a MFJ couple must file in the domicile state, you should look at that state's tax rules. States have different requirements, depending on how much state-sourced income you may have in that particular state. A helpful article describing the wide range of state taxation laws for nonresidents can be found here: https://taxfoundation.org/data/all/state/nonresident-income-tax-filing-laws/