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2025 Tax Updates: What Service Providers Need to Know

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Event Materials

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This webinar has been approved to offer continuing education credit. Please stay tuned for more information!

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Today's Presenter



Susan Mitchell

Executive Director
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Department of Defense Office of the General Counsel
Office of the Secretary of Defense

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Learning Objectives

By the end of this webinar, attendees will be able to:

1. Understand when a service member's pay or benefits is taxable and not taxable
2. Describe the longtime tax benefits available to eligible service members and their families
3. Explain several of the 2025 tax law updates that apply to most taxpayers, including military service members and their families

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1) What is one thing you're hoping to learn more about today?

2) Why did you prioritize attending this webinar?

Share your answer in the chat-pod

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Tax Benefits for Service Members and Their Families

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Taxable Pay and Allowances

- Basic Pay
 - Active duty pay
 - Back wages
 - Reserve training pay
- Special Pay
 - Aviation career incentive pay
 - Hostile fire or imminent danger pay
 - Medical and dental officer pay



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Taxable Pay and Allowances

- Bonus Pay
 - Enlistment and Reenlistment pay
 - Career status pay
 - Overseas extension pay
- Other Pay
 - Accrued leave
 - Personal money allowances paid to high-ranking officers
 - Cost of living allowance (COLA)
 - Student loan repayment programs



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Taxable Pay and Allowances

- Incentive Pay
 - Flight pay
 - Hazardous duty pay
 - Submarine pay
- Retirement Pay
 - Including Survivor Benefit Plan (SBP)



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Non-Taxable Pay and Allowances

- Non-Taxable Allowances
 - Basic Allowance for Housing (BAH)
 - Basic Allowance for Subsistence (BAS)
- Service-Connected Disability Compensation, paid by the VA
- Military death gratuity



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Adjustments to Income

- Reserve Component
 - Unreimbursed travel expenses
- IRA Contributions
 - Combat zone contribution extension
- Qualified reservist distribution
 - Waiving early withdrawal penalties
 - 10 percent early withdrawal tax does not apply

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Moving Expenses

- Service members who PCS may deduct unreimbursed moving expenses
- Examples of deductible expenses
- Overnight travel expenses for National Guard and Reserve Component

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Form 3903
Department of the Treasury
Internal Revenue Service (IRS)
(Name(s) shown on return)

Go to www.irs.gov/Form3903 for instructions and the latest information.
Attach to Form 1040, 1040-SR, or 1040-NR

Moving Expenses

Before you begin: You can deduct moving expenses only if you have a military order, you, your spouse, or your dependent are moving to a new duty station.

- 1 Transportation and storage of household goods
- 2 Travel (including lodging and meals) while en route to the new duty station
- 3 Temporary lodging and meals while en route to the new duty station



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Combat Zone Exclusion

- Income for that month is generally tax-free
- Service outside combat zone may also qualify
- Combat Zones are designated by Executive Order



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In Direct Support of Arabian Peninsula

- EO 12744 (17 Jan 1991): Arabian Peninsula (Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, the UAE, Persian Gulf, Red Sea, Gulf of Oman, portions of Arabian Sea, and the Gulf of Aden)
 - Direct Support locations:
 - Jordan
 - Lebanon
 - Portions of Turkey



Source: Encyclopaedia Britannica, Inc.

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Kosovo Area

- EO 13119 (24 March 1999): Kosovo Area (Serbia, Montenegro, Albania, Kosovo, Adriatic Sea, and the Ionian Sea (north of 39th parallel)
 - Direct Support locations: None



Source: European Committee of the Regions /Division of Powers

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In Direct Support of Afghanistan Area

- EO 13239 (19 September 2001): Afghanistan
 - Direct Support locations:
 - Jordan and Pakistan
 - Philippines
 - Djibouti
 - Yemen
 - Somalia and Syria



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Qualified Hazardous Duty Areas (QHDA)

Public Law 104-117	Bosnia and Herzegovina, Croatia, and Macedonia
Public Law 106-21	Albania, Adriatic Sea, Federal Republic of Yugoslavia, and Ionian Sea
Public Law 115-97	Sinai Peninsula of Egypt



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Combat Zone Exclusion Details

- Amount of exclusion
 - Enlisted and Warrant Officers
 - Commissioned Officers
 - Bonuses and pay for accrued leave
- Included in calculation of Earned Income Tax Credit (EITC)



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Capital Gains Exclusion for Sale of Primary Residence

- Service member can suspend 5-year period for up to 10 years when assigned to a duty station that is:
 - at least 50 miles from their residence
 - for a period of 90 days or more
- Period of suspension can be used only for one property at a time



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Abatement of Tax in Case of Death

- Forgives all tax liability attributable to **all income**
- IRC § 7508 and IRC §692(a)
- Subject to Statutory Period of Limitations



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Filing Tax Returns and Paying Taxes

- Extensions within the United States
- Extensions outside of the United States
- No extensions for payment of tax
- Signing tax returns

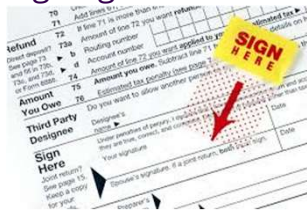


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Extensions Due to Service

- Service-related extensions under IRC § 7508
- Rules for Spouses
- Extension for Period of Impairment Due to Military Service
- Length of Extension – 180 days after the later of:
 - Last day in a combat zone or hospitalization
 - Extended by the number of days left in tax filing period



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2025 Tax Updates

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Standard Deduction

Filing Status	2024	2025
Single	\$14,600	\$15,000
Married Filing Jointly	\$29,200	\$30,000
Head of Household	\$21,900	\$22,500

Source: Internal Revenue Service

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Alternative Minimum (AMT) Exemption

- Unmarried individuals - \$88,100
- Married filing separately - \$68,650
 - Phase-out at \$626,350
- Married filing jointly - \$137,000
 - Phase-out at \$1,252,700



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Earned Income Tax Credit (EITC)

	Max Credit
No children	\$649
1 child	\$4,328
2 children	\$7,152
3+ children	\$8,047



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Capital Gains Tax Rates and Brackets

Filing Status	0% tax rate	15% tax rate	20% tax rate
Single	\$0-\$48,350	\$48,351-\$533,400	\$533,400+
Married Filing Jointly	\$0-\$96,700	\$96,701-\$600,050	\$600,050+



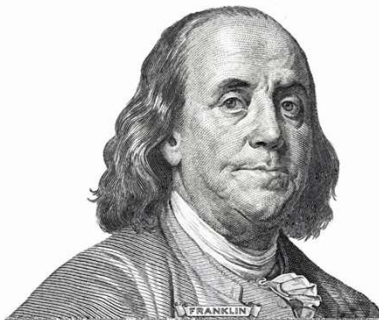
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Estate Tax and Tax-Free Gifts

- Federal estate-tax exclusion amount is \$13,990,000
- First \$19,000 in gifts excluded from tax



*...in this world nothing
can be said to be certain,
except death and taxes."*

- Benjamin Franklin

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Flexible Spending Accounts (FSAs)

- Dependent Care FSA contribution limits
- Health Care FSA contribution limits
- Eligible Members

Special Enrollment for
Health Care Flexible
Spending Accounts

March 3-31, 2025



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What is NOT changing?

- Personal exemption amount
- Max child tax credit
- State and local tax (SALT) deduction cap of \$10,000
- No limitation on itemized deductions
- Lifetime Learning Credit
- Income tax owed on student loan forgiveness
- Tax-free loan repayment through Employer Educational Assistance program



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Looking to the Future

- Tax Cuts and Jobs Act (TCJA) of 2017
- Some items that will expire if not otherwise extended
 - Child Tax Credit
 - Standard Deduction, Other Deductions
 - Individual Income Tax Rates



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Tax Resources

- Common Errors Taxpayers should avoid
- IRS.gov website
- IRS Publication 3, Armed Forces Tax Guide
- Military OneSource MilTax software
- Military Volunteer Income Tax Assistance (VITA) programs




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Questions



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- Videos
- Blogs
- Resources <https://www.milspousemoneymission.org>



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- Make wise financial decisions when life events happen.
- Thrive while spending within your means.



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- Service members and families
- Service providers
- Spouses

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Upcoming Event



Building Recovery Capital with Military Families

Tuesday, March 18, 2025 at 11 AM EST - 12:30 PM EST

This webinar examines how substance use disorders can affect all five domains of military family well-being — financial, career, health, social, and community engagement (DOD Instruction 1342.22).

Continuing education credit will be available for this session!

OneOp.org/learn/160073/

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- The American Association for Family and Consumer Sciences (AAFCS)
- The Association for Financial Counseling & Planning Education (AFCPE)
- The Center for Financial Certifications (FinCert.org)
- The National Council on Family Relations (NCFR)
- Certificate of attendance

Evaluation Link

Go to the event page for the evaluation and post-test link.

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