

VOLUME 7A, CHAPTER 44: “WITHHOLDING OF INCOME TAX”**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by an * symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue and underlined font**.

The previous version dated July 2009 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
440103.A	Eliminated references to old dates.	Update
440103.C.5	Moved subparagraph and renumbered as 440103.D.	Update
440103.C.7	Updated language for clarity.	Update
440108	Eliminated references to Advance Payment of Earned Income Credit (APEIC) per Public Law 111-226.	Update
Table 44-1, Note 1	Added information related to additional contributions to Montgomery G.I. Bill benefits.	Add
Table 44-1, Rule 7	Updated to reflect taxability of separation pay, readjustment pay, and severance pay.	Update

Table of Contents

VOLUME 7A, CHAPTER 44: “WITHHOLDING OF INCOME TAX”	1
4401 WITHHOLDING FROM CURRENT PAY	3
440101. Wages Subject to Withholding of Federal and State Income Tax	3
440102. Wages Not Subject to Withholding of Federal and State Income Tax	3
440103. Combat Zone Income Tax Exclusion for Active Service in a Combat Zone or Qualified Hazardous Duty Area.....	4
440104. Tax Abatement for Death Caused by Terrorist or Military Action Overseas	8
440105. Rate of Withholding.....	8
440106. State and Local Taxes	8
440107. Nonresident Aliens.....	9
*440108. Advance Payment of Earned Income Credit Amounts	10
4402 COLLECTION OF DELINQUENT FEDERAL TAXES BY LEVY.....	11
440201. Authority	11
440202. Levy Processing Procedures	11
440203. Effect on Members in a Combat Zone or Qualified Hazardous Duty Area.....	11
440204. Attachment of Earnings and Payment to IRS.....	12
440205. Problem Cases	12
4403 INSTALLMENT COLLECTION OF DELINQUENT TAXES	13
440301. Agreement for Liquidation of Federal Tax Indebtedness by Payroll Deductions..	13
440302. Change of Member’s Status During Liquidation Period.....	13
Figure 44-1. States That Entered Withholding Agreement With Treasury	14
Figure 44-2. Combat Zone Tax Relief Areas	15
*Table 44-1. Taxability of Items of Military Pay and Allowances	17
Table 44-2. Collection of Delinquent Taxes by Installment - Change of Member’s Status	23
BIBLIOGRAPHY	25

CHAPTER 44

WITHHOLDING OF INCOME TAX

4401 WITHHOLDING FROM CURRENT PAY

440101. Wages Subject to Withholding of Federal and State Income Tax

The taxable pay (Table 44-1) of all Service members, except those listed in paragraph 440102, is subject to withholding of federal and state income tax. The taxable value of certain non-cash fringe benefits, in excess of statutory limitations that are provided to some members, is subject to federal and applicable state income taxes (see Table 44-1, rules 21 and 22).

440102. Wages Not Subject to Withholding of Federal and State Income Tax

Military pay of the following Service members is not subject to withholding of federal and state income tax:

A. Combat Zone Tax Exclusion

1. Prior to March 20, 1996. All of the compensation of members (officer or enlisted) for any month during any part of which such members performed active duty in a combat zone, which qualified them for the combat zone tax exclusion under subparagraph 440103.C, even though only \$500 of the compensation of a commissioned officer (O-1 and above) was excluded from taxation.

2. Effective March 21, 1996. All of the compensation of an enlisted member or warrant officer for any month during any part of which such members perform active duty in a combat zone or qualified hazardous duty area (QHDA) (defined in subparagraph 440103.B), qualify them for combat zone tax exclusion (CZTE) under subparagraph 440103.C. For commissioned officers, no more than an amount equal to the maximum CZTE in effect for any month during any part of which such officers perform active duty in a Combat Zone or QHDA, qualify them for combat zone or qualified hazardous duty area tax exclusion under subparagraph 440103.C.

3. Maximum CZTE. The amount of the maximum CZTE in effect for a qualifying month equals the sum of the highest rate of enlisted basic pay payable under Table 1-10, Note 2 and the amount of hostile fire/imminent danger pay actually payable to the officer for the qualifying month. Also see Column B of rules 1 through 4 under Table 44-1 and Chapter 10.

B. Missing Status. All active duty members for any month during any part of which the member is in a missing status as defined in the Definitions during the Vietnam conflict as a result of such conflict; except for periods for which it officially is determined that the member is absent from post of duty without authority. These provisions became effective on February 28, 1961, and were terminated on June 30, 1996.

C. Puerto Rico. For members who claim Puerto Rico as their state of legal residence, Federal income tax withholding is precluded when military pay is properly subject to Puerto Rico tax withholding (when the member performs permanent duty outside the United States). Puerto Rico tax withholding is not required for military pay earned but unpaid at the date of death of a military member.

440103. Combat Zone Income Tax Exclusion for Active Service in a Combat Zone or Qualified Hazardous Duty Area

A. Combat Zone Defined

1. Effective January 17, 1991, Executive Order 12744 designated the following areas (including air space and adjacent waters) as combat zones: Persian Gulf; Red Sea; Gulf of Oman; Gulf of Aden; that portion of the Arabian Sea that lies north of 10 degrees N. Lat., and west of 68 degrees E. Long.; and the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates.

2. Effective March 24, 1999, Executive Order 13119 designated the following areas (including the airspace above) as a combat zone: The Federal Republic of Yugoslavia (Serbia and Montenegro), Albania, the Adriatic Sea, and the Ionian Sea north of the 39th parallel. (Note: The combat zone designation for Montenegro and Kosovo (previously a province within Serbia) under Executive Order 13119 remains in force even though Montenegro and Kosovo became independent nations since Executive Order 13119 was signed in March 1999.)

3. Effective September 19, 2001, Executive Order 13239, December 12, 2001, designates Afghanistan, including the air space above, as an area in which Armed Forces of the United States are and have engaged in combat.

B. Qualified Hazardous Duty Area Defined. Effective November 21, 1995, Public Law 104-117 authorized tax benefits for members performing services in peacekeeping efforts in Bosnia-Herzegovina, Croatia, and Macedonia, hereinafter referred to as qualified hazardous duty areas, in the same way as if services were performed in a combat zone. This authorization terminates October 31, 2007. Hostile Fire Pay/Imminent Danger Pay for these areas is not payable on and after November 1, 2007. (Figure 10-1).

C. Qualification for Combat Zone Income Tax Exclusion for Active Service in a Combat Zone or Qualified Hazardous Duty Area. A member of the Armed Services is entitled to combat zone tax exclusion or qualified hazardous duty area exclusion for any month during any part in which he or she:

1. Performs active service in a combat zone or qualified hazardous duty area designated in subparagraphs 440103.A. or 440103.B. Periods in the zone or area during which a member is absent from his or her duty assignment in the zone or area on account of sickness, wounds, internment by the enemy, or other lawful cause are periods of active service.

2. Becomes a prisoner of war or missing in action while in active service in a combat zone or qualified hazardous duty area. (Note: Such personnel are deemed, for the purposes of this paragraph, to continue in active service in the combat zone or area for the period for which they are entitled to such status for military pay purposes.)

3. Is granted official leave, or is authorized to depart from assigned duty in a zone or qualified hazardous duty area for other lawful cause on or after November 21, 1995, and is directed to perform temporary duty, and the departure or return is on any day of the month. Exception: In instances when the absence on leave, **temporary additional duty (TAD)**, or **temporary duty (TDY)** extends over a period which includes a full calendar month, the tax exclusion may not be allowed for that calendar month.

4. Is present, however briefly, in the combat zone or qualified hazardous duty area on official duty requiring presence in that zone or area. When the airspace over a combat zone or qualified hazardous duty area is included as part of the zone or area, a member who passes over or through the zone or area during the course of a trip between two points, both of which lie outside the zone or area, is entitled to an exclusion only if he or she is assigned to official temporary duty to the airspace of the zone or area, or qualifies for hostile fire or imminent danger pay as a result of the flight. If the airspace is not designated for imminent danger pay (but is part of the designated zone or area), then a member must be assigned to perform duty in the airspace rather than flying over the zone or area as in an incidental part of the trip to qualify for the exclusion. The fact that most members are in an official duty status when flying through a designated airspace should not be construed to mean they are assigned to the airspace to perform duty and therefore entitled to the exclusion. The following examples apply:

Example 1. Member A is assigned as a navigator in an air unit stationed outside the combat zone. On June 4, during the course of a flight between his home base and another base outside the combat zone, the aircraft on which he serves as a navigator flies over a combat zone (given that the airspace is part of the designated combat zone). Member A is not on official temporary duty in the airspace of the combat zone and does not qualify for hostile fire or imminent danger pay as a result of the flight. Accordingly, he is not deemed to have served in a combat zone since he passes through the zone without either being on official duty to the combat zone or qualifying for hostile fire or imminent danger pay.

Example 2. Same scenario as example 1, except that the airspace is not part of the designated zone and Member B is entitled to hostile fire or imminent danger pay as a result of the flight. Member B is deemed to have served in a combat zone and is entitled to the combat zone tax exclusion if his duties are determined to be in direct support of the military operation in the zone.

Example 3. Member C is a navigator in an air unit stationed outside a combat zone. On June 4, she is ordered to perform duty (execute a mission) in the airspace over the combat zone (which is part of the designated zone) and return to her home station outside the combat zone. Member C is not entitled to hostile fire or imminent danger pay as a result of the flight. She is, however, entitled to the combat zone tax exclusion for the month of June for performing official temporary duty in the airspace (combat zone) during the period.

5. Performs military duties in areas outside the combat zone or qualified hazardous duty area in direct support of military operations in the combat zone or qualified hazardous duty area and qualifies for hostile fire or imminent danger pay under Chapter 10 of this volume. (The hostile fire or imminent danger pay entitlement must be related to activities or circumstances in the combat zone or qualified hazardous duty area.) Unit commanders who believe that their personnel qualify for combat zone or qualified hazardous duty area treatment under this provision shall request certification from the applicable approval authority as designated by the Secretary of Defense.

a. When members are entitled to tax exclusion under this paragraph, entitlement continues for periods of absence, prisoner or missing status, and temporary duty as stated for service in the actual combat zone or qualified hazardous duty area in subparagraphs 440103.C.1, 2, 3, or 4.

b. Military service is considered to be in direct support if it has the effect of maintaining, upholding, or providing assistance for those involved in military operations in the combat zone or qualified hazardous duty area. The following examples are provided to assist in determining whether personnel qualify for combat zone or qualified hazardous duty area tax exclusion. In each case, personnel must be entitled to hostile fire pay or imminent danger pay:

(1) Since the act of transporting necessary supplies is a function included within the concept of providing direct support of military operations, services rendered on a supply vessel transporting supplies to a combat zone or qualified hazardous duty area are in direct support of military operations in the combat zone or qualified hazardous duty area.

(2) If an aircraft in a nearby country outside the combat zone or qualified hazardous duty area is used to transport supplies and personnel into the combat zone or qualified hazardous duty area, then the members of the ground crews who load the aircraft and the maintenance personnel who maintain the aircraft all qualify for combat zone or qualified hazardous duty area tax exclusion. In addition, members who maintain and control the airstrip (e.g., as a meteorologist or air traffic controllers) are performing services in direct support of military operations in the combat zone or qualified hazardous duty area qualify for the tax exclusion.

(3) Members of a unit or installation who support and assist other members of that unit or installation who serve in direct support of military operations in a combat zone or qualified hazardous duty area are considered to be serving in direct support of military operations in the combat zone or qualified hazardous duty area. Generally, all members who serve in support of operations at an installation where some members serve in direct support of military operations in a combat zone or qualified hazardous duty area are considered to be serving in direct support of military operations in that combat zone or qualified hazardous duty area (e.g., unit or installation personnel for an airstrip would qualify).

* 6. Is hospitalized or re-hospitalized any place as a result of wounds, disease, or injury incurred while serving in a combat zone or qualified hazardous duty area or while serving in areas identified in subparagraph 440103.C.5. A member is considered as hospitalized or re-hospitalized until such time as status as a hospital patient ceases by reason of discharge from the hospital. Combat zone or qualified hazardous duty area tax exclusion under this subparagraph shall not apply to any months beginning more than 2 years after the date specified by the President in an Executive Order as the date of the termination of combatant activities in the combat zone.

* D. Combat Zone Tax Relief for Personnel Serving in Direct Support of Theater Combat Operations. Figure 44-2 has the combat zone tax relief areas and effective dates listed.

E. Periods For Which Tax Exclusion Does Not Apply. Members who are in the combat zone or qualified hazardous duty area merely for their own convenience, e.g., while on leave from a duty station not in the zone or area, are not entitled to the exclusion.

F. Tax Abatement in Case of Death

1. A member who dies in a combat zone or qualified hazardous duty area, or as a result of wounds, disease, or injury incurred while serving in the combat zone or qualified hazardous duty area (Figure 44-2) is exempt from income tax for:

- a. The taxable year in which death occurs.
- b. Any prior taxable year ending on or after the first day served in a combat zone or qualified hazardous duty area.
- c. Any such tax for prior years that remains unpaid at date of death.

2. For missing members, the date of death is not earlier than the date on which a determination of death is made. The preceding sentence does not cause abatement of taxes for any taxable year beginning:

- a. After January 2, 1978, for service in the combat zone designated for purpose of the Vietnam conflict, or
- b. More than 2 years after the date designated under 26 U.S.C. 112 as the date of termination of combatant activities in any combat zone other than that designated for purposes of the Vietnam conflict.

G. Termination Date Other than Cases of Hospitalization. In no case shall the tax exclusion authorized in subparagraph 440103.C.1 through C.6, for active duty members extend beyond the effective date specified in an executive order terminating the designation of

the combat zone. In the case of qualified hazardous duty areas, the exclusion shall not extend beyond the effective date of the termination of imminent danger pay for the area.

440104. Tax Abatement for Death Caused by Terrorist or Military Action Overseas

A member whose death was caused by terrorist or military action overseas (excluding training exercises) qualifies for federal tax abatement under the provisions of [26 U.S.C. 692\(c\)](#). The law forgives the deceased member's tax liability for the year of death and for all prior tax year(s) for the period beginning with the tax year before the year the injuries or wounds were incurred. The deceased member's survivors, executor, or administrator should contact the Internal Revenue Service for necessary guidance in claiming the tax exemption.

440105. Rate of Withholding

A. General. The withholding of federal and state taxes shall be in accordance with Treasury Department Circular E and Treasury Department regulations governing state income tax withholding as implemented in Military Service directives.

B. Additional Federal and State Withholding Tax. Consistent with his or her tax planning needs, a member may authorize an additional amount to be withheld monthly even though entitled to combat zone tax exclusion. A member, who becomes entitled to combat zone exclusion while on temporary additional duty (TAD) or temporary duty (TDY), may authorize that regular withholding be continued. The member's pay account must be adjusted for the combat zone exclusion. See the applicable procedural instructions of the Military Service concerned for preparation of additional withholding tax requests and effective dates.

440106. State and Local Taxes

A. Tax Requirements. The state in which a member claims legal residence may tax compensation and other income regardless of the member's location. Compensation for Military Service, however, is not taxable by any state, territory, possession, political subdivision, or district that is not the member's legal residence.

B. Legal Residence. Each member must designate a legal residence and report any changes of legal residence. A member's legal residence does not change because of change of permanent station. Legal residence at the time of entry into the Armed Forces remains the same until changed by the member. Notification of legal residence or change of legal residence must be accomplished by the member using a DD Form 2058, "State of Legal Residence Certificate."

C. Native Americans. States are prohibited from taxing the military compensation of Native American service members who claim a federally recognized tribal reservation as their state of legal residence. Notification of a federally recognized tribal reservation as a state of legal residence must be accomplished by the Native American service member using DD Form 2058-2, "Native American State Income Tax Withholding Exemption Certificate."

D. Withholding. Compensation for military service that is subject to federal taxation also is subject to the mandatory withholding of income taxes on behalf of those states (including the District of Columbia) that have entered into an agreement for the purpose of such withholding with the Secretary of the Treasury. See Figure 44-1 for the states have entered into such an agreement and the effective date to start state tax withholding.

E. Disclosure of Withholding Information. The furnishing of annual wage and tax information of military members to states (including the District of Columbia) that have a withholding agreement with the Treasury Department must comply with the Privacy Act of 1974. Based upon regulatory provisions pertaining to disclosure to the states, the wages of a member who claims exemption from withholding should not be reported to a state without the member's consent. In lieu of reporting the wages of members who claim exemption from state tax withholding, name, social security number, and the member's claimed basis for exemption shall be provided to the state. This rule applies to all Military Services and pay or personnel systems.

F. Delinquent Taxes. There is no authority for the involuntary collection of delinquent state tax liabilities of members.

440107. Nonresident Aliens

A. Definition. For the purpose of federal income tax withholding, a nonresident alien is an individual who neither is a citizen of the United States nor a resident of the United States. An alien (non-citizen) is a resident of the United States if he or she is admitted lawfully to the United States for permanent residence, meets the substantial presence test, or makes an election to be treated as a resident during the first year of presence in the United States, except as may be provided by tax treaty between the United States and the alien's country of residence.

1. Lawfully Admitted for Permanent Residence. An alien is considered lawfully admitted for permanent residence when he or she first arrives in the United States after his or her immigration status is approved as a permanent residence. Status as lawfully admitted for permanent residence continues, regardless of the alien's location, until the alien is outside the United States after his or her immigration status as a permanent resident is revoked or is determined by a court or administrative body to have been abandoned. Nominal presence in the United States of 10 days or less after revocation or abandonment of permanent resident status will be disregarded if the alien is substantially connected to a foreign country during that time.

2. Substantial Presence Test. An alien meeting the substantial presence test is a resident from the first day of presence in the United States in a calendar year in which the test is met, except that nominal presence for less than 10 days while still substantially connected to a foreign country is disregarded, until the alien leaves the United States and establishes connections closer to a foreign country than to the United States. Nominal presence in the United States of 10 days or less after this point is disregarded. Also, days of presence in the United States during which the alien is unable to leave the United States due to a medical

condition that arose while in the United States are disregarded in applying the substantial presence test. An alien meets the substantial presence test if:

a. He or she is present in the United States on at least 31 days of the calendar year; and

b. The sum of the days on which the individual was present in the United States during the current calendar year, 1/3 of the days on which the individual was present in the first preceding calendar year, and 1/6 of the days on which the individual was present in the second preceding calendar year, equals or exceeds 183. Individuals do not meet the substantial presence test for the current year if they are present on less than 183 days in the current year and have, in the current year, a tax home in a foreign country to which they have closer connections than to the United States, provided that they have not applied for an adjustment of immigration status or otherwise taken steps toward lawful permanent residence in the United States.

B. Tax Liability. A service member, who is a nonresident alien, is liable for United States income tax on pay attributable to service performed in the United States, even if such pay is not subjected to federal income tax withholding because of the provisions in subparagraph 440107.C. A nonresident alien member's pay attributable to service performed outside the United States is not subject to United States income tax. For purposes of this paragraph, service outside the United States means shore duty at a naval or other military installation outside the United States and the States of Alaska or Hawaii, or duty on board a seagoing vessel of the Navy (other than a vessel normally used only in coastal waters). Service in a possession of the United States is considered duty outside the United States. A nonresident alien member is not disqualified from eligibility for any of the income exclusions or withholding exemptions set forth in Chapters 44 and 45 of this volume because of a nonresident alien status.

C. Income Tax Withholding. The pay of a non resident alien for any period of service within the United States exceeding 60 calendar days is subject to federal income tax withholding. Such pay also may be subject to state income tax withholding, depending on the state residency status of the alien. Pay for periods of service within the United States of 60 calendar days or less, or for service outside the United States, is not subject to federal or state income tax withholding. The nonresident alien member nevertheless is subject to federal income taxation, and may be subject to state income taxation, on pay for all days of service within the United States and is responsible for reporting, and paying any tax due on, all such income. The fact that income tax is not withheld on pay attributable to a particular day does not prevent that day from being counted as a day of presence in the United States for purposes of subparagraph 440107.A.

*440108. Advance Payment of Earned Income Credit Amounts

For taxable years beginning after December 31, 2010, the Advance Payment of Earned Income Credit has been repealed.

4402 COLLECTION OF DELINQUENT FEDERAL TAXES BY LEVY

440201. Authority

When a member does not pay any federal income tax due within 30 days after the [Internal Revenue Service \(IRS\)](#) has issued a notice and payment demand to the member, the IRS may collect the tax by levy on the member's salary or other income. Receipt by the cognizant Military Service (or [Defense Finance and Accounting Service \(DFAS\)](#) Site) of a levy notice is the legal authority to commence collection of the delinquent federal income taxes after taking into consideration the appropriate exemptions.

440202. Levy Processing Procedures

A. The IRS serves the tax levy by mail. IRS Form 668-W(c), "The Notice of Levy on Wages, Salary, and Other Income," includes instructions for the employer (Military Service) and the employee (member).

B. Upon receipt of the levy, the disbursing officer immediately:

1. Completes part 3 and returns the levy to IRS if no funds are due the member (for example, higher precedence deductions (Table 52-1) or in a status described in paragraph 440203); or

2. Forwards parts 2 through 5 to the member if funds are due or soon will become due.

C. The member certifies his or her filing status and number of personal exemptions and returns parts 3 and 4 to the disbursing officer within 3 days (or other period authorized by the IRS in coordination with the Military Service concerned and as established within Military Service regulations). If the member does not return parts 3 and 4, then the levy will be processed as if the member is "married filing a separate return with one personal exemption."

D. The levy will continue in effect until the amount due in the levy notice is collected or until the levy is released by the IRS.

E. Forward a misrouted levy notice or levy release to the member's cognizant DFAS Site.

440203. Effect on Members in a Combat Zone or Qualified Hazardous Duty Area

A. The disbursing officer immediately will complete part 3, with appropriate notations, and return the levy to the IRS if the member is:

1. Serving (performing official duties) in a designated combat zone or qualified hazardous duty area for any period of time;

2. Serving (performing official duties) outside a designated combat zone or qualified hazardous duty area, but in direct support of military operations in a combat zone or qualified hazardous duty area, and in receipt of hostile fire or imminent danger pay as a result of duties performed in direct support of designated combat zone or qualified hazardous duty area operations;

3. Continuously hospitalized as a result of service in a designated combat zone or qualified hazardous duty area (limited to 5 years of hospitalization in the United States); or

4. In a missing status.

B. Levy deferment remains in effect for 180 days after a member no longer meets any of the above criteria. Entitlement begins anew (including a new 180-day clock) when a member re-qualifies for deferment (again meets one of the above criteria), with one exception. Re-hospitalization for a previously treated wound, illness, or injury does not re-qualify a member, nor does it stop/restart a 180-day clock.

440204. Attachment of Earnings and Payment to IRS

A. The member's "take home pay," minus exempt amounts claimed via the member's certified claim on part 3 of the levy, shall be attached and sent to the IRS until the levy is satisfied or released by the IRS. The member's usual pay deductions will continue while the levy is in effect.

B. When exemptions are equal to or exceed the member's "take home pay," the disbursing officer will so advise the IRS office that served the levy.

440205. Problem Cases

When the IRS determines that a member's delinquent income tax is a "problem case," that agency shall furnish with the levy notice:

A. A statement of amount of delinquent taxes, and

B. A statement that the member's "take home pay" is not enough to pay the levy and all available accrued pay should be attached. In such cases, use all items of pay and allowances including travel allowances and accrued leave settlement paid upon discharge, less exemptions (refer to Form 668-W(c)) and deductions and collections in Table 52-1, rules 1 through 12. Discontinue the member's voluntary (non-discretionary) allotments (except for allotments for support of minor children that are authorized in compliance with court orders when entered prior to date of levy) as necessary to pay the levy. If the amount of the levy does not require stopping all voluntary allotments, then the member may select any allotments to be stopped. If the member does not make that selection, then the disbursing officer stops allotments as necessary, with insurance allotments the last to be stopped.

4403 INSTALLMENT COLLECTION OF DELINQUENT TAXES

440301. Agreement for Liquidation of Federal Tax Indebtedness by Payroll Deductions

A member may arrange with the IRS to pay delinquent taxes by monthly deductions from pay. Agreements are made on IRS Form 2159, "Payroll Deduction Agreement." Once affected, a member may not cancel an agreement before the tax indebtedness is completely liquidated. The Military Services handle agreements as follows:

A. Army. Collect and pay to IRS as prescribed for payment of indebtedness to instrumentalities and agencies of the government.

B. Navy and Marine Corps. Process the agreement as a T allotment if the period of liquidation is 3 months or longer. If the period is less than 3 months, then the disbursing officer pays each month to IRS in the amount of the deduction.

C. Air Force. Process as class T allotment.

440302. Change of Member's Status During Liquidation Period

See Table 44-2.

Figure 44-1. States That Entered Withholding Agreement With Treasury

STATES THAT ENTERED WITHHOLDING AGREEMENT WITH TREASURY			
State	Effective Date To Start Withholding	State	Effective Date To Start Withholding
Alabama	July 1, 1977	Mississippi	July 1, 1978
Arizona	September 1, 1993	Missouri	January 1, 1993
Arkansas	March 30, 1981	Montana	October 29, 1977
California	February 1, 1978	Nebraska	September 1, 1977
Colorado	August 1, 1977	New Jersey	July 1, 1977
Connecticut	January 1, 1992	New Mexico	July 1, 1977
Delaware	July 1, 1977	New York	July 1, 1977
District of Columbia	August 1, 1977	North Carolina	July 1, 1977
Georgia	January 1, 1979	North Dakota	July 29, 1987
Hawaii	December 1, 1977	Ohio	September 1, 1978
Idaho	July 1, 1977	Oklahoma	September 1, 1977
Illinois	July 1, 1977	Oregon	November 1, 1977
Indiana	August 1, 1977	Pennsylvania	July 1, 1977
Iowa	July 1, 1977	Puerto Rico	February 15, 1998
Kansas	July 1, 1977	Rhode Island	August 1, 1977
Kentucky	September 1, 1977	South Carolina	July 1, 1977
Louisiana	September 1, 1977	Utah	July 1, 1977
Maine	November 1, 1977	Vermont	January 1, 1990
Maryland	August 1, 1977	Virginia	July 1, 1977
Massachusetts	August 1, 1977	West Virginia	July 1, 1977
Michigan	July 1, 1977	Wisconsin	August 1, 1977
Minnesota	November 1, 1977		

Figure 44-2. Combat Zone Tax Relief Areas

COMBAT ZONE TAX RELIEF AREAS FOR PERSONNEL IN DIRECT SUPPORT OF A COMBAT ZONE		
Location	Effective Dates	
	From	Through
Djibouti – Personnel serving in Djibouti due to their service in direct support of military operations in the Afghanistan combat zone	July 1, 2002	
Egypt – Personnel serving in Egypt due to their service in direct support of military operations in the Arabian Peninsula combat zone	March 19, 2003	April 20, 2003
Israel – Personnel serving in Israel due to their service in direct support of military operations in the Afghanistan combat zone	January 1, 2003	July 31, 2003
Jordan – Personnel serving in Jordan due to their service in direct support of military operations in the Afghanistan combat zone	September 19, 2001	
Jordan – Personnel in direct support of Operation Iraqi Freedom due to their service in direct support of military operations in the Arabian Peninsula combat zone	March 19, 2003	
Kyrgyzstan – Personnel serving in Kyrgyzstan due to their service in direct support of military operations in the Afghanistan combat zone	September 19, 2001	
Mediterranean, Eastern (East of 30 degrees east longitude (sea area only) Must be deployed to water area in support of Operation Iraqi Freedom)	March 19, 2003	April 11, 2003
Mediterranean, Eastern (East of 30 degrees east longitude (sea area only) Must be deployed to water area in support of Operation Iraqi Freedom)	April 11, 2003	July 31, 2003
Pakistan – Personnel serving in Pakistan due to their service in direct support of military operations in the Afghanistan combat zone	September 19, 2001	
Philippines – Personnel deployed in conjunction with Operation Enduring Freedom based on their service in direct support of military operations in the Afghanistan combat zone	January 9, 2002	

Figure 44-2 Combat Zone Tax Relief Areas (Continued)

COMBAT ZONE TAX RELIEF AREAS FOR PERSONNEL IN DIRECT SUPPORT OF A COMBAT ZONE		
Location	Effective Dates	
	From	Through
Somalia – 1. Personnel serving in Somalia due to their service in direct support of military operations in the Afghanistan combat zone 2. Somalia airspace 3. Water area of the Somali Basin including the following coordinates: ° 1110N3-05115E2, 0600N6-04830E5, 0500N5-05030E8, 1130N5-05334E5 ° 0500N5-05030E8, 0100N1-04700E1, 0300S3-04300E7, 0100S1-04100E5, 0600N6-04830E5	January 1, 2004 January 1, 2007 January 1, 2007	
Syria – Personnel serving in Syria due to their service in direct support of military operations in the Afghanistan combat zone	January 1, 2004	
Tajikistan – Personnel serving in Tajikistan due to their service in direct support of military operations in the Afghanistan combat zone	September 19, 2001	
Turkey – Incirlik Air Base (Personnel deployed to Incirlik Air Base in support of Operation Enduring Freedom based on their direct support of operations in Afghanistan combat zone)	September 21, 2001	December 31, 2005
Turkey – Personnel serving in Turkey due to their service in direct support of military operations in the Arabian Peninsula combat zone	January 1, 2003	December 31, 2005
Uzbekistan – Personnel serving in Uzbekistan due to their service in direct support of military operations in the Afghanistan combat zone	September 19, 2001	
Yemen – Personnel serving in Yemen due to their service in direct support of military operations in the Afghanistan combat zone	April 10, 2002	

*Table 44-1. Taxability of Items of Military Pay and Allowances

TAXABILITY OF ITEMS OF MILITARY PAY AND ALLOWANCES				
R U L E	A	B		
	If item is	then item is (notes 5, 9, and 10)		
		taxable and subject to federal/state income tax withholding	taxable but not subject to federal/ state income tax withholding	not taxable
1	basic pay (note 1)	for any month combat zone or qualified hazardous duty area exclusions do not apply (notes 2 and 13).		for pay earned by an enlisted member or warrant officer (W-1 through W-5) and beginning November 21, 1995, commissioned officers (O-1 and above) amounts up to the highest rate of pay payable to any enlisted member plus the amount of hostile fire/imminent danger pay that is actually payable to the officer for any month combat zone or qualified hazardous duty area tax exclusion applies (notes 2 and 7); or, for any member while in a missing status and authorized tax exclusion under the provisions of subparagraph 440102.A. For periods on or before November 20, 1995 for commissioned officers (O-1 and above), up to \$500 per month of such pay is not taxable for any month combat zone tax exclusion applies.
2	incentive pay for hazardous duty (see Chapters 22 through 24)			
3	special pay (see Chapters 3 through 21)			
4	lump-sum payment of accrued leave (basic pay portion)			
5	a bonus entitlement (including installments)	if earned (reenlists, extends, signs agreement) in a month during which combat zone tax exclusion does not apply.		if earned (reenlists, extends, signs agreement) in a month during which combat zone or qualified hazardous duty area exclusion applies, regardless if the act of earning the bonus takes place before entering or after returning from the combat zone or qualified hazardous duty area. (note 13)
6	National Call to Service Bonus (NCSB) or Student Loan Repayment Program (SLRP)			for the NCSB for only the actual months that are served in a combat zone or qualified hazardous duty area during the initial 15 month of service following initial entry training; and for the SLRP for only the actual months served in a combat zone or qualified hazardous duty area out of the 12-month period. (note 13 and note 15)

*Table 44-1. Taxability of Items of Military Pay and Allowances (Continued)

TAXABILITY OF ITEMS OF MILITARY PAY AND ALLOWANCES				
R U L E	A	B		
	If item is	then item is (notes 5, 9, and 10)		
		taxable and subject to federal/state income tax withholding	taxable but not subject to federal/ state income tax withholding	not taxable
7	separation pay, readjustment pay, or severance pay (except for disability)(note 6)	remains taxable income subject to reporting and withholding, even if paid during any month in which the combat zone exclusion applies.		
8	contract cancellation pay			
9	pay forfeited by court martial sentence or non-judicial punishment			and is loss of entitlement to pay in the amount of the forfeiture (however, remaining pay is subject to tax withholding (note 3)).
10	payment(s) in excess of actual travel and transportation costs incurred while carrying on business of U.S. Government (includes any temporary lodging entitlements)		and will not be reported on TD Form W-2 or 1099. The member will account for such payment(s) on individual income tax return.	
11	incentive payment paid to member for do-it-yourself move per JFTR, part D, Chapter 5	at time of payment		
12	muster duty allowance	at time of payment under the provisions of subparagraph 580106.C.		
13	funeral duty allowance	at time of payment		

*Table 44-1. Taxability of Items of Military Pay and Allowances (Continued)

TAXABILITY OF ITEMS OF MILITARY PAY AND ALLOWANCES				
R U L E	A	B		
	If item is	then item is (notes 5, 9, and 10)		
		taxable and subject to federal/state income tax withholding	taxable but not subject to federal/ state income tax withholding	not taxable
14	personal money allowance	and will be reported on Form W-2.		
15	an allowance (BAS, BAH, FSA, clothing and uniform allowances, and overseas station allowances) (note 8)			at any time.
16	death gratuity		effective August 21, 1996 through September 10, 2001, to the extent the total payment for any death exceeds \$3,000 and reported on TD Form 1099-Misc (see note 11)	effective September 11, 2001, total amount (see note 11).
17	otherwise taxable item of pay earned by member but unpaid at death		but will be reported on TD Form 1099-MISC when paid to beneficiary (note 4).	if death occurs in month member was entitled to combat zone or qualified hazardous duty area exclusion.
18	special separation benefit or voluntary separation incentive	at the flat withholding rate (currently 25 percent) for FITW and at appropriate SITW rate for SSB payments and initial VSI payments. Withhold taxes from VSI installment payments at the annual withholding rate contained in IRS Circular E (note 12).		

*Table 44-1. Taxability of Items of Military Pay and Allowances (Continued)

TAXABILITY OF ITEMS OF MILITARY PAY AND ALLOWANCES				
R U L E	A	B		
	If item is	then item is (notes 5, 9, and 10)		
		taxable and subject to federal/state income tax withholding	taxable but not subject to federal/ state income tax withholding	not taxable
19	inactive duty training (IDT) pay	at time of the payment (CZTE does not apply to pay for IDTs).		
20	former captive payment (see Chapter 37)		if payment is for former captive status resulting from a lawful action. Payment will be reported on IRS Form W-2 (note 4).	if payment is for former captive status resulting from the deprivation of personal rights.
21	employer provided home-to-work transportation	even if transportation is provided for security reasons (note 14).		
22	employer-provided parking	to the extent that the value exceeds the monthly exclusion limit (note 14).		to the extent that the value is equal to or less than the monthly exclusion limit.
23	Thrift Savings Plan	deferred until contributions are withdrawn.		if TSP contribution is made from pay earned in a combat zone or qualified hazardous duty area (for commissioned officers, limited to maximum monthly CZTE amount).
24	waived portion of court martial forfeiture of taxable pay or pay and allowances (Chapter 48)	see subparagraph 480306.C		

NOTES:

1. Excludes the reduction of basic pay for educational benefits under the "New Montgomery GI Bill" after December 31, 1985. [Members wishing to increase their Montgomery G.I. Bill benefits may contribute up to \\$600, in accordance with 38 U.S.C. 3011\(e\).](#) This contribution is not a reduction in basic pay and therefore, does not reduce a member's taxable wages.
2. Add the payments (rules 1 through 6) made currently or at a later date for a commissioned officer (O-1 and above) to other pay for the month (up to the highest rate of pay payable to any enlisted member) to calculate the maximum amount to be applied for combat zone or qualified hazardous duty area tax exclusion. (See subparagraph 350103.B.)
3. This does not apply to fines imposed by court martial or non-judicial punishments. Withhold tax from the member's full pay credited before deducting the fine. Report the full amount of the pay credited, without deducting the fine, as taxable income.

*Table 44-1. Taxability of Items of Military Pay and Allowances (Continued)

NOTES: (cont)

4. Report any otherwise taxable item of pay earned by member but unpaid at death in Box 3 of TD Form 1099-MISC. Enter Federal income tax withheld or backup withholding in Box 4 of the TD Form 1099-MISC. Exception is pay earned for any month combat zone or qualified hazardous duty area exclusion applies. Combat zones and qualified hazardous duty areas are so designated by Executive Order or statute, respectively.
5. The susceptibility of items of military pay and allowances to state income taxes depends upon the law of the member's state of legal residence. Items of pay and allowances, which are not subject to Federal Income Tax Withholding (FITW), however, will not be subject to State Income Tax Withholding (SITW). Items of pay and allowances subject to FITW will be subject to SITW if the member's state of legal residence has entered into a withholding agreement with the Secretary of the Treasury. The total or partial exclusion by states of military pay from income will be recognized in the computation of the amount of state income tax to be withheld.
6. See paragraph 350404 of this volume for exceptions to the normally taxable payment of disability severance pay.
7. Only pay and allowances actually earned during any month in which a combat zone or qualified hazardous duty area designation applies are excludable, even if paid in a later, non-qualifying month. Entitlements earned during any non-qualifying month, but paid in a month the exclusion applies, remain taxable. Accrued leave payments qualify only for that portion of days that were actually earned during a qualifying month.
8. Allowances considered nontaxable on September 9, 1986 remain nontaxable. Any allowance created after September 9, 1986 will be taxable for federal and state income tax purposes unless specified otherwise.
9. If a member receives an overpayment of a taxable pay item, then the overpayment should be reported in the year paid unless the combat zone or qualified hazardous duty area tax exclusion is applicable. If recovery of the overpayment is waived, remitted, or canceled, then there is no additional tax reporting requirements. If the overpayment consists of a nontaxable pay item, then the overpayment should not be reported as taxable income if the resulting debt is waived, remitted, or canceled.
10. Taxable wages and withholding must reflect the debt in the year the payment was received. Collection action will reflect impact on taxable wages and withholding (if applicable) as collection is made, but only if made in the same year as the original payment.
11. Death gratuity is a qualified military benefit that is excluded from Federal taxation. This tax exclusion applies to any increases in the death gratuity amount that are made pursuant to a law enacted after September 9, 1986. See [26 U.S.C. § 134\(b\)\(3\)\(CC\)](#). Thus, the increases that have been made to the death gratuity amount since September 9, 1986, through various enacted laws are not taxable to the recipients.
12. SSB and VSI payments remain taxable even if a member signs the agreement to separate while serving in a combat zone or qualified hazardous duty area.
13. Effective April 1, 1996 for combat zone and qualified hazardous duty area tax exclusion for commissioned officers (O-1 and above), amounts over the highest enlisted grade (Sergeant Major of the Army, Master Chief Petty Officer of the Navy, Chief Master Sergeant of the Air Force, or Sergeant Major of the Marine Corps; (see Table 1-10, note 2, for clarification) plus the amount of hostile fire/imminent danger pay that is actually payable to the officer for that month are taxable and subject to federal and state tax withholding.
14. Home-to-work provided transportation and employer provided parking.
 - a. Per [DoD 4500.36-R](#), the USD(C) and USD (P&R) jointly will issue updated annual guidance concerning the valuation, on a monthly basis, of taxable government employer-provided home-to-work transportation fringe benefits provided to certain military members. Armed Forces Tax Council service representatives annually will distribute the updated guidance to the Military Services.
 - b. Each DoD Component will determine the value, to be calculated on a monthly basis, of government employer-provided taxable parking fringe benefits provided to military members.
 - c. Determination must be accomplished utilizing the provisions of the Internal Revenue Code (See [IRS Publication 15-B](#)) and Treasury Regulations and accordingly documented.

Each member's Service shall:

 - (1) Identify members receiving government employer-provided home-to-work transportation and/or parking fringe benefits;

Table 44-1. Taxability of Items of Military Pay and Allowances (Continued)*NOTES: (cont)**

- (2) Certify fringe benefit was authorized, calculate and certify the value of the taxable fringe benefits, and submit the appropriate taxable gross income amounts to the servicing DFAS central site, no less often than once a year. Exception: When members receive taxable fringe benefits from active duty assignments outside their DoD Component, the agency providing the taxable fringe benefit (such as parking) calculates the value of the benefit provided, and the member's Service verifies the correctness of the calculation;
- (3) Keep members receiving such benefits advised of the tax liability annually accruing to them.
- d. Each member's certified taxable fringe benefit amount must be sent to the servicing DFAS central site no less often than annually and not later than December 15, each year, for processing to:
 - (1) Include the taxable non-cash benefit amounts in members' gross income;
 - (2) Withhold and deduct appropriate federal and state income taxes (not FICA taxes);
 - (3) Generate a TD Form W-2 that reflects the adjusted gross income and withholding amounts. The military services' field finance offices are not authorized to process taxable fringe benefits as additional taxable wages, to withhold applicable taxes, or to generate a manual TD Form W-2.
15. The tax exempt computation for the NCSB and SLRP will be the number of months in the combat zone/qualified hazardous duty area divided by 15 months for the NCSB or 12 months for the SLRP. The resulting percentage will be multiplied against the bonus or loan amount. The result will be the tax exempt amount for the member.

Table 44-2. Collection of Delinquent Taxes by Installment - Change of Member's Status

COLLECTION OF DELINQUENT TAXES BY INSTALLMENT—CHANGE OF MEMBER'S STATUS				
R U L E	A	B	C	D
	When a member who has arranged with IRS for installment collection of delinquent taxes	and	then	and
1	is discharged or released from active duty	immediately reenlists	deduct from member's pay as agreed with IRS without interruption	
2		does not immediately reenlist	deduct from final pay enough to liquidate the remaining indebtedness, or all available if the remaining indebtedness is more than is available	notify IRS of the member's separation.
3	enters a period of unauthorized absence for which pay and allowances are not payable	is a member of the Army or Air Force	deduct from member's pay and pay to IRS for the month the absence begins the amount agreed to or as much as is available if less than agreed to	suspend further deductions and payments for tax indebtedness until member is restored to a pay status. If deductions and payments are suspended at the time additional payment is due, then notify IRS. Remove suspension when member is restored to a pay status. Deduct and pay for the month of restoration as much as is available if less than the agreed to amount.
4		is a member of the Navy or Marine Corps and a T allotment has not been established		
5		is a member of the Navy or Marine Corps and a T allotment has been established	cancel the T allotment on the 15th day following the date absence began (or earlier if necessary to prevent allotment overpayment)	
6	is retired from the Air Force	a T allotment has been established	allotment remains in effect	deductions required by allotment are made from retired pay.
7	is retired from the Army	an E allotment has been established		

Table 44-2. Collection of Delinquent Taxes by Installment - Change of Member's Status
(Continued)

COLLECTION OF DELINQUENT TAXES BY INSTALLMENT—CHANGE OF MEMBER'S STATUS				
R U L E	A	B	C	D
	When a member who has arranged with the IRS for installment collection of delinquent taxes	and	then	and
8	is retired from the Army	an E allotment has not been established	deduct for the month of retirement or transfer, as agreed with the IRS	notify member and the IRS that new agreement must be made.
9	is a Navy or Marine Corps member and is transferred to the Fleet Reserve, Fleet Marine Corps Reserve or retired list and not immediately recalled to active service	a T allotment has not been established		
10	is a Navy or Marine Corps member and is transferred to the Fleet Reserve, Fleet Marine Corps Reserve or retired list and not immediately recalled to active service	a T allotment has been established	the T allotment remains in effect	deductions required by T allotment are made from retired pay or retainer pay.
11	has qualified for collection deferment because of service in a combat zone or enters hospitalized/missing status as a result of service in a combat zone (note)		defer initiating collection effective the month entering such status	commence collection in accordance with paragraph 440203.

NOTE: Includes direct support of combat zone operations.

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CHAPTER 44 - WITHHOLDING INCOME TAX

4401 - WITHHOLDING FROM CURRENT PAY

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440102.B	26 U.S.C. 112(d)
440102.C	OASD(FM&P) Memo, September 6, 1990
440103	Public Law 104-117, March 20, 1996, 109 Stat 827
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440103.B	PDUSD (P&R) Memo, March 27, 2007
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440103.C.5	USD (P&R) Memos, December 14, 2001 and, February 5, 2002
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440107.B and C	IRS Ltr Ruling (CP:10:41) December 17, 1971 and September 26, 1968
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Figure 44-2

Djibouti	OUSD(P&R) Memo, November 21, 2002
Egypt	OUSD (P&R) Memo, September 25, 2003
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<p>Rules 21 and 22</p>	<p>Treasury Regulation 1.162-1(b)(5) and 1.262-2(e) IRS Notice 94-3 10 U.S.C. 2637</p>
<p>*</p> <p>Note 1</p>	<p>Public Law 106-419, section 105, November 1, 2000</p>
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<p>Notes 9 and 10</p>	<p>IRS Rev Rul 79-311 Treasury Regulation 1.61-12 IRS, April 18, 1960 DoD(C) Memo, January 28, 1984</p>
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