



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

JAN 21 1999

DFAS-HQ/FMM

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
CLEVELAND CENTER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
DENVER CENTER

SUBJECT: Update to Department of Defense Financial Management  
Regulation, Volume 7, Part B (DoDFMR Vol 7B), Part  
Nine, Chapter 11, Mandatory Federal Income Tax  
Withholding from One-time Survivor Benefit Plan (SBP)  
Payments (DFAS Item H-29)

This is DFAS Interim Change Number R1-99 to the DoDFMR  
Vol 7B. This change clarifies when withholding of Federal  
income tax is mandatory for one-time SBP payments and other  
changes based on guidance from DFAS-DE/GM and is effective  
immediately.

We evaluated your comments on the draft change to the  
DoDFMR, Vol 7B. The attached final version of the change  
includes your comments where appropriate. Assignment of an  
interim change number is your authority to start a procedural  
modification to facilitate this change. For the Denver Center,  
use the attached to initiate the formal printed change to the  
DoDFMR, Vol 7B.

My point of contact, Ms. Ann Cook, may be contacted at DSN  
327-5059 or (703) 607-5059. Her FAX number is DSN 332-5271 or  
(703) 602-5271.

*for Edward J. Bitz*  
Gregory P. Bitz  
Director for Finance

Attachment:  
As stated

cc: DASD (MPP) (COMP)  
ODGC (F)  
DFAS-DE/DG  
Service Liaisons  
USCG/NOAA/PHS Liaisons

1. Revise paragraph to 91201 to read:

"SBP annuities are taxable income subject to Federal income tax withholding. A refund of cost resulting from an administrative error, correction of records, or the awarding of DIC is taxable to the annuitant. The member's retired pay tax status has no bearing on the taxability of the annuity payments or the refund of cost. See subparagraph 91202c(2) and Table 9-12-1 for exceptions to the taxability of SBP and RSFPP annuities. SBP annuity payments are treated as "designated distributions" under 26 U.S.C. 3405 for tax withholding purposes."

2. Revise the title of subparagraph 91202a to read:

"a. Monthly or periodic Payments."

3. Revise the text of subparagraph 91202a to read:

"Monthly or periodic SBP annuity payments are treated as wages for Federal income tax withholding (FITW) purposes. However, an annuitant may elect no withholding of Federal income tax. In the absence of an annuitant election, or if the . . . furnished by the payer."

4. Revise the first sentence in subparagraph 91202b to read:

"The DFAS . . . upon making the first monthly or periodic payment to the annuitant."

5. Revise the title of subparagraph 91202c to read:

"c. Lump-sum (One-time) or Non-periodic Distribution Payments."

6. Revise the text of subparagraph 91202c(1) to read:

"SBP cost refunds are a refund of premiums, rather than a distribution of benefits. As a non-periodic distribution, they are subject to FITW at the rate of 10 percent. However, the annuitant may elect no withholding of Federal income tax. The annuitant has the right to . . . for this refund . . . payments."

7. Revise the text of subparagraph 91202c(2) to read:

"Lump-sum SBP annuity payments, other than the monthly or cost refund payments discussed above, are non-periodic distributions to the annuitant and subject to mandatory FITW at the rate of 20 percent. An annuitant may not elect no withholding of Federal income tax. EXCEPTION: If the lump sum payment of an SBP annuity is the result of administrative error or delay in the starting of an annuity, then the lump-sum payment need not be treated as a payment subject to 20 percent FITW. Treat the payment as a periodic (or monthly) payment for tax withholding purposes (see subparagraph 91202a above)."

8. In the bibliography, add the following:

91201	"26 U.S.C. 3405"
"91202a	26 U.S.C. 3405(a) (1), (2)"
"91202c(1)	26 U.S.C. 3405(b) (1), (2)"
"91202c(2)	26 U.S.C. 3405(c) DFAS-DE/GM Memo, 23 Jul 1998"