

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 asterisk (*) 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 **December 2013** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
4401	Added new “General” section with “Purpose” and “Authoritative Guidance” and renumbered remaining sections accordingly.	Addition
440202.B	Updated Puerto Rico and Commonwealth of Northern Mariana Islands taxation to reflect current guidelines.	Revision
440203.A.4	Clarified “Qualified Hazardous Duty Area”.	Revision
440203.B.5	Clarified the appropriate authority to designate “Direct Support Areas”.	Revision
440203.E.2	Clarified “Tax Abatement in Case of Death”.	Revision
440205	Removed the obsolete “Problem Cases” paragraph.	Deletion
Figure 44-1	Removed authorization of Combat Zone Tax Exclusion from Egypt; Israel; Mediterranean, Eastern; and Turkey.	Deletion
	Added Lebanon and The Federal Republic of Yugoslavia.	Revision
	Added Termination Date for Kyrgyzstan; Philippines; Tajikistan; and Uzbekistan.	Revision
	Added Notes for Combat Zones.	Addition
Figure 44-2	Renamed to “State and Territories That Entered Withholding Agreement With Treasury”.	Revision
	Added Commonwealth of Northern Mariana Islands.	
Table 44-1	Removed obsolete rule 16 and note 11, which pertained to Death Gratuity payment and renumbered remaining rules and notes accordingly.	Deletion
Table 44-2	Removed rules 6, 7, 8, 9, and 10, which pertained to Retired Pay, and renumbered remaining rules accordingly. This information is contained in Volume 7B, Chapter 19.	Deletion
Bibliography	Updated References.	Revision

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CHAPTER 44

WITHHOLDING OF INCOME TAX

*4401 GENERAL

440101. Purpose

The purpose of this chapter is to describe the Federal Income Tax Withholding (FITW) and State Income Tax Withholding (SITW) requirements and procedures for Service member wages.

440102. Authoritative Guidance

The bibliography at the end of this chapter lists the authoritative references.

4402 WITHHOLDING FROM CURRENT PAY

440201. Wages Subject to FITW and SITW

The taxable pay of all Service members, except those listed in paragraph 440202, is subject to FITW and SITW. See Table 44-1. The taxable value of certain non-cash fringe benefits, (in excess of statutory limitations that are provided to some members), is also subject to federal and applicable state income taxes. See Table 44-1, rules 20 and 21.

*440202. Wages Not Subject to FITW and SITW

A. Combat Zone Tax Exclusion (CZTE)

1. Prior to March 20, 1996. All compensation a member (officer or enlisted) receives during a month in which a member performs active duty in a Combat Zone (CZ) qualifies the member for CZTE under subparagraph 440203.C. Commissioned Officers (O-1 and above) received a tax exclusion of \$500.

2. Effective March 21, 1996. All compensation of an enlisted member or warrant officer received during a month in which the enlisted member or warrant officer performed active duty in a CZ or Qualified Hazardous Duty Area (QHDA) (defined in subparagraph 440203.B) qualifies the member for CZTE under subparagraph 440203.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 CZ or QHDA, qualifies them for CZ or QHDA tax exclusion under subparagraph 440203.B.

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 Chapter 1, 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.

* B. Puerto Rico and Commonwealth of Northern Mariana Islands (CNMI)

The U.S. Treasury Department has entered into an agreement with Puerto Rico and CNMI that requires the withholding of U.S. territorial income taxes instead of U.S. federal income tax for Service members who claim Puerto Rico or CNMI as their state of legal residence (as defined by the Internal Revenue Service (IRS)) and are serving:

1. On active duty status in the regular or reserve components of the:
 - (a) Army;
 - (b) Navy;
 - (c) Air Force;
 - (d) Marine Corps;
 - (e) Coast Guard; or
2. In the National Guard and participating in exercises or performing duty under Title 32 United States Code (U.S.C.) section 502; or
3. In the Ready Reserve and participating in scheduled drills or training periods or are serving on active duty for training under 10 U.S.C. § 10147.

*440203. CZTE for Active Service in a CZ, QHDA, or Direct Support Area

A. CZ and QHDA Defined

1. Effective January 17, 1991, Executive Order 12744 designated the following areas (including air space and adjacent waters) as CZs: 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 CZ: The Federal Republic of Yugoslavia (Serbia and Montenegro), Albania, the Adriatic Sea, and the Ionian Sea north of the 39th parallel. (Note: The CZ 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 U.S. are and have engaged in combat.

* 4. QHDAs are the following:

a. Any area of the Federal Republic of Yugoslavia (Serbia/Montenegro), Albania, the Adriatic Sea, and the northern Ionian Sea (above the 39th parallel). See Public Law 106-21, April 19, 1999; and

b. Bosnia, Herzegovina, Croatia, and Macedonia. See Public Law 104-117, effective November 21, 1995.

NOTE: In order to have CZTE treatment of wages for services performed in a QHDA, a member must be entitled to hostile fire or imminent danger pay while performing service in the QHDA.

B. Qualification for CZTE for Active Service in a CZ, QHDA, or Direct Support Area. A Service member is entitled to CZTE or QHDA exclusion for any month during any part in which he or she:

1. Performs active service in a CZ or QHDA designated in subparagraph 440203.A. Periods in the zone or area during which a member is absent from the duty assignment because of sickness, wounds, internment by the enemy, or other lawful cause is periods of active service.

2. Becomes a prisoner of war or missing in action while in active service in a CZ or QHDA. Such personnel are deemed, for the purposes of this paragraph, to continue in active service in the CZ 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 CZ or QHDA for other lawful cause on or after November 21, 1995, and is directed to perform temporary duty (TDY), and the departure or return is on any day of the month. Exception: The tax exclusion does not apply for the calendar month in which a member is absent for:

a. leave;

b. Temporary Additional Duty (TAD); or

c. TDY.

4. Is present, however briefly, in the CZ or QHDA on official duty. When the airspace over a CZ or QHDA 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 the member is assigned to official TDY 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 hostile fire or 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 CZ. On June 4, during the course of a flight between his home base and another base outside the CZ, the aircraft on which he serves as a navigator flies over a CZ (given that the airspace is part of the designated CZ). Member A is not on official TDY in the airspace of the CZ 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 CZ since he passes through the zone without either being on official duty to the CZ 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 CZ and is entitled to the CZTE 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 CZ. On June 4, she is ordered to perform duty (execute a mission) in the airspace over the CZ (which is part of the designated zone) and return to her home station outside the CZ. Member C is not entitled to hostile fire or imminent danger pay as a result of the flight. She is, however, entitled to the CZTE for the month of June for performing official TDY in the airspace (CZ) during that period.

* 5. Performs military duties in areas outside the CZ or QHDA in direct support of military operations in the CZ or QHDA and qualifies for hostile fire or imminent danger pay under 37 U.S.C. § 310. (The hostile fire or imminent danger pay entitlement must be related to activities or circumstances in the CZ or QHDA.) Unit commanders who believe that their personnel qualify for CZTE treatment under this provision must request the appropriate designation. The Principal Deputy Under Secretary of Defense for Personnel and Readiness is responsible for designating direct support areas in accordance with (IAW) Department of Defense Instruction (DoDI) 1340.25, paragraph 4(b)(3). Once the area has been designated as a direct support area, all members serving in that area, who also receives hostile fire or imminent danger pay will qualify for CZTE benefits, unless otherwise specified.

a. When members are entitled to tax exclusion under this paragraph, entitlement continues for periods of absence, prisoner or missing status, and TDY as stated for service in the actual CZ or QHDA in subparagraphs 440203.B.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 CZ or QHDA. The following examples are provided to assist in determining whether personnel qualify for CZ or QHDA tax exclusion. In each case, personnel must also be entitled to hostile fire pay or imminent danger pay:

Example 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 CZ or QHDA are in direct support of military operations in the CZ or QHDA.

Example 2. If an aircraft in a nearby country outside the CZ or QHDA is used to transport supplies and personnel into the CZ or QHDA, then the members of the ground crews who load the aircraft and the maintenance personnel who maintain the aircraft all qualify for CZ or QHDA 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 CZ or QHDA qualify for the tax exclusion.

Example 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 CZ or QHDA are considered to be serving in direct support of military operations in the CZ or QHDA. Generally, all members who serve in support of operations at an installation where some members serve in direct support of military operations in a CZ or QHDA are considered to be serving in direct support of military operations in that CZ or QHDA (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 CZ or QHDA or while serving in areas identified in subparagraph 440203.B.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. CZ or QHDA tax exclusion under this subparagraph will 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 CZ.

C. CZ Tax Relief for Personnel Serving in Direct Support of Combat Operations. Figure 44-1 lists the CZ tax relief areas and effective dates.

D. Periods for Which Tax Exclusion Does Not Apply. Members who are in the CZ or QHDA 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.

* E. Tax Abatement in Case of Death

1. A member who dies in a CZ or QHDA or as a result of wounds, disease, or injury incurred while serving in the CZ or QHDA ([Figure 44-1](#)) 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 CZ or QHDA; or
- c. Any such tax for prior years that remains unpaid at date of death.

* 2. If an individual in a CZ or a QHDA is in missing status and is declared dead by Secretarial determination, for purposes of the tax abatement rules stated in 440203.E.1, the date of death is the date of the determination and not earlier. The tax abatement rules in 440203.E.1 do not apply for any taxable year that begins more than 2 years after it is determined that the area in which Service member went missing is no longer a CZ or QHDA under 26 U.S.C. § 112.

F. Termination Date Other than Cases of Hospitalization. In no case will the tax exclusion authorized in subparagraph [440203.B.1 through B.6](#), for active duty members, extend beyond the effective date specified in an executive order terminating the designation of the CZ. In the case of QHDAs, the exclusion will not extend beyond the effective date of the termination of [hostile fire or imminent danger](#) pay for the area.

[440204.](#) 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) beginning with the tax year before the injuries or wounds [occurred](#). The deceased member's survivors, executor, or administrator should contact the [IRS](#) for necessary guidance in claiming the tax exemption.

[440205.](#) Rate of Withholding

A. General. The [FITW/SITW](#) will be [IAW](#) Treasury Department Circular E and Treasury Department regulations governing state income tax withholding as implemented in Military Service directives.

B. Additional FITW and SITW. A member, entitled to CZTE while TAD or TDY, may authorize that regular withholding be continued. [A member entitled to CZTE may authorize an additional amount to be withheld.](#) The member's pay account will be adjusted for

the [CZTE](#). See the applicable procedural instructions of the Military Service concerned for preparation of additional tax withholding requests and effective dates.

[440206](#). State and Local Taxes

A. Tax Requirements. The state in which a member claims legal residence ([i.e., domicile](#)) 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 a change of permanent station. Legal residence at the time of entry into the Armed Forces remains the same until changed by the member. [A member makes notification](#) of legal residence or change of legal residence by [submitting](#) a Department of Defense (DD) Form 2058, State of Legal Residence Certificate.

C. Native Americans. A Native American Service member who claims a federally recognized tribal reservation as their state of legal residence [is not subject to state taxes](#). [A Native American Service member makes notification](#) of a federally recognized tribal reservation as a state of legal residence by [submitting](#) a DD Form 2058-2, Native American [SITW](#) 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 44-2](#) for a list of the states [that](#) 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 [will](#) 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.

[440207](#). Nonresident Aliens

A. Definition. For the purpose of FITW, a nonresident alien is an individual who neither is a citizen of the U.S. nor a resident of the U.S. An alien (non-citizen) is a resident

of the U.S. if he or she is admitted lawfully to the U.S. 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 U.S., except as may be provided by tax treaty between the U.S. 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 U.S. after his or her immigration status is approved as a permanent resident. Status as lawfully admitted for permanent residence continues, regardless of the alien's location, until the alien is outside the U.S. 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 U.S. 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 U.S. 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 U.S. and establishes connections closer to a foreign country than to the U.S.. Nominal presence in the U.S. of 10 days or less after this point is disregarded. Also, days of presence in the U.S. during which the alien is unable to leave the U.S. due to a medical condition that arose while in the U.S. are disregarded in applying the substantial presence test. An alien meets the substantial presence test if:

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

b. The sum of the days on which the individual was present in the U.S. 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 U.S., provided that they have not applied for an adjustment of immigration status or otherwise taken steps toward lawful permanent residence in the U.S.

B. Tax Liability. A Service member, who is a nonresident alien, is liable for U.S. income tax on pay attributable to service performed in the U.S., even if such pay is not subjected to FITW because of the provisions in subparagraph 440207.C. A nonresident alien member's pay attributable to service performed outside the U.S. is not subject to U.S. income tax. For purposes of this paragraph, service outside the U.S. means shore duty at a naval or other military installation outside the U.S. 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 U.S. is considered duty outside the U.S. 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 because of a nonresident alien status.

C. Income Tax Withholding. The pay of a nonresident alien for any period of service within the U.S. exceeding 60 calendar days is subject to FITW. Such pay also may be subject to SITW, depending on the state residency status of the alien. Pay for periods of service within the U.S. of 60 calendar days or less, or for service outside the U.S., is not subject to FITW or SITW. 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 U.S. 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 U.S. for purposes of subparagraph 440207.A.

440208. Advance Payment of Earned Income Credit Amounts

The Advance Payment of Earned Income Credit was repealed for any taxable year after December 31, 2010.

4403 COLLECTION OF DELINQUENT FEDERAL TAXES BY LEVY

440301. Authority

When a member does not pay any federal income tax due within 30 days after the 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.

440302. Levy Processing Procedures

A. The IRS serves the tax levy by mail. The 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 the IRS if no funds are due the member (for example, higher precedence deductions (Chapter 52, Table 52-1) or if the member is in a status described in paragraph 440303); 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 released by the IRS.

E. Forward a misrouted levy notice or levy release to the member’s servicing DFAS Site.

440303. Effect on Members in a CZ or QHDA

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 CZ or QHDA for any period of time;

2. Serving (performing official duties) outside a designated CZ or QHDA, but in direct support of military operations in a CZ or QHDA, and in receipt of hostile fire or imminent danger pay as a result of duties performed in direct support of designated CZ or QHDA operations;

3. Continuously hospitalized as a result of service in a designated CZ or QHDA (limited to 5 years of hospitalization in the U.S.); or

4. In a missing status.

B. Levy deferment remains in effect for 180 days after a member no longer meets any of the criteria listed in 440303.A. Entitlement begins again (including a new 180-day clock) when a member re-qualifies for deferment (again meets one of the criteria listed in 440303.A), 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.

440304. 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, will 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.

4404 INSTALLMENT COLLECTION OF DELINQUENT TAXES**440401.** 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 using IRS Form 2159, Payroll Deduction Agreement. A member may not cancel an agreement once it is in effect. 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 a Class T allotment.

440402. Change of Member's Status During Liquidation Period

See Table 44-2.

*Figure 44-1. CZ Tax Relief Areas

Location	Effective Dates	
	From	Through
Djibouti – Personnel serving in Djibouti due to their service in direct support of military operations in the Afghanistan CZ (note 1)	July 1, 2002	
*Federal Republic of Yugoslavia (Serbia and Montenegro) – Personnel serving in: <ol style="list-style-type: none"> 1. Albania 2. Adriatic Sea 3. Ionian Sea north of the 39th parallel. (notes 2 and 3) 	March 24, 1999	
Jordan – Personnel serving in Jordan due to their service in direct support of military operations in the Afghanistan CZ (note 1)	September 19, 2001	
Jordan – Personnel serving in direct support of military operations in the Arabian Peninsula CZ (note 5)	March 19, 2003	
*Kyrgyzstan – Personnel serving in Kyrgyzstan due to their service in direct support of military operations in the Afghanistan CZ (note 1)	September 19, 2001	May 31, 2014 (note 4)
*Lebanon – Personnel serving in direct support of military operations in the Arabian Peninsula CZ (note 5)	February 12, 2015	February 11, 2020
Pakistan – Personnel serving in Pakistan due to their service in direct support of military operations in the Afghanistan CZ (note 1)	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 CZ (note 1)	January 9, 2002	September 30, 2015
Somalia – Personnel serving in: <ol style="list-style-type: none"> 1. Somalia due to their service in direct support of military operations in the Afghanistan CZ 2. Somalia airspace 3. Water area of the Somali Basin including the following coordinates: <ul style="list-style-type: none"> ◦ 1110N3-05115E2, 0600N6-04830E5, 0500N5-05030E8, 1130N5-05334E5 ◦ 0500N5-05030E8, 0100N1-04700E1, 0300S3-04300E7, 0100S1-04100E5, 0600N6-04830E5 (note 1) 	January 1, 2004 January 1, 2007 January 1, 2007	

*Figure 44-1. CZ Tax Relief Areas (Continued)

Location	Effective Dates	
	From	Through
Syria – Personnel serving in Syria due to their service in direct support of military operations in the Afghanistan CZ (note 1)	January 1, 2004	
*Tajikistan – Personnel serving in Tajikistan due to their service in direct support of military operations in the Afghanistan CZ (note 1)	September 19, 2001	May 31, 2014 (note 4)
*Uzbekistan – Personnel serving in Uzbekistan due to their service in direct support of military operations in the Afghanistan CZ (note 1)	September 19, 2001	May 31, 2014 (note 4)
Yemen – Personnel serving in Yemen due to their service in direct support of military operations in the Afghanistan CZ (note 1)	April 10, 2002	

*NOTES:

1. The Afghanistan CZ is the area designated by Executive Order 13239.
2. The Federal Republic of Yugoslavia CZ is the area designated by Executive Order 13119.
3. The CZ 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.
4. An individual serving in Kyrgyzstan, Tajikistan, and Uzbekistan who is not entitled to imminent danger pay, will still qualify for CTZE if in receipt of hostile fire pay, so long as those countries remain in “direct support” of a CZ.
5. The Arabian Peninsula CZ is the area designated by Executive Order 12744.

*Figure 44-2. State and Territories 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	Common Wealth of Northern Mariana Islands	December 2006

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

R U L E	A	B		
	If item is	then item is (notes 1, 2, and 3)		
		taxable and subject to FITW/SITW	taxable but not subject to FITW/SITW	not taxable
1	basic pay (note 4)	for any month CZ or QHDA exclusions do not apply (notes 5 and 6).		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 CZ or QHDA tax exclusion applies (notes 5 and 7); or, for any member while in a missing status and authorized tax exclusion under the provisions of subparagraph 440202.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 CZTE applies.
2	incentive pay for hazardous duty (see Chapters 22 through 24)			
3	special pay (see Chapters 3, 5, 6, 7, 8, 10, 11, 15, 17, 18 and 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 CZTE does not apply.		if earned (reenlists, extends, signs agreement) in a month during which CZ or QHDA exclusion applies, regardless if the act of earning the bonus takes place before entering or after returning from the CZ or QHDA. (note 6)

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

R U L E	A	B		
	If item is	then item is (notes 1, 2, and 3)		
		taxable and subject to FITW/SITW	taxable but not subject to FITW/SITW	not taxable
6	National Call to Service Bonus (NCSB) or Student Loan Repayment Program (SLRP)			for the NCSB for the actual months that are served in a CZ or QHDA during the initial 15 month of service following initial entry training; and for the SLRP for the actual months served in a CZ or QHDA out of the 12-month period. (note 6 and note 8)
7	separation pay, readjustment pay, or severance pay (except for disability) (note 9)	and remains taxable income subject to reporting and withholding, even if paid during any month in which the CZ 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 10)).

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

R U L E	A	B		
	If item is	then item is (notes 1, 2, and 3)		
		taxable and subject to FITW/SITW	taxable but not subject to FITW/SITW	not taxable
*10	payment(s) of travel and transportation costs incurred while carrying on business of U.S. Government (includes any temporary lodging entitlements)	if assignments are over 1 year. All travel reimbursement expenses are taxable, regardless of whether the reimbursements exceed the traveler's expenses IAW Internal Revenue Code 162(a) and Revenue Rule 99-7	if the amounts received are in excess of actual travel and transportation costs incurred while carrying on business of U.S. Government. The amount will not be reported on IRS Form W-2 or 1099, but the member will account for such payment(s) on applicable individual income tax returns	in temporary assignments lasting a year or less, if members receive the government per diem rate (or an amount less than the per diem rate. The amount received is not taxable, because the members' expenses are deemed to be substantiated IAW Revenue Procedure 2011-47.
11	an incentive payment paid to member for do-it-yourself move per Department of Defense Financial Management Regulation (DoD FMR) Volume 9, Chapter 6, paragraph 060302.	at time of payment		
12	muster duty allowance	at time of payment under the provisions of subparagraph 580205.B.		

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

R U L E	A	B		
	If item is	then item is (notes 1, 2, and 3)		
		taxable and subject to FITW/SITW	taxable but not subject to FITW/SITW	not taxable
13	funeral duty allowance	at time of payment.		
14	personal money allowance	and will be reported on Form W-2.		
15	an allowance (Basic Allowance for Subsistence, Basic Allowance for Housing, Family Separation Allowance, clothing and uniform allowances, and overseas station allowances) (note 11)			at any time.
16	an otherwise taxable item of pay earned by member but unpaid at death		but will be reported on IRS Form 1099-MISC when paid to beneficiary (note 12).	if death occurs in month member was entitled to CZ or QHDA exclusion.

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

R U L E	A	B		
	If item is	then item is (notes 1, 2, and 3)		
		taxable and subject to FITW/SITW	taxable but not subject to FITW/SITW	not taxable
17	special separation benefit or voluntary separation incentive (VSI)	at the flat withholding rate (currently 25 percent) for FITW and at the appropriate SITW rate for Special Separation Bonus (SSB) payments and initial VSI payments. Withhold taxes from VSI installment payments at the annual withholding rate contained in IRS Circular E (note 13).		
18	inactive duty training (IDT) pay	at time of payment (CZTE does not apply to pay for IDTs).		
19	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 12).	if payment is for former captive status resulting from the deprivation of personal rights.

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

R U L E	A	B		
	If item is	then item is (notes 1, 2, and 3)		
		taxable and subject to FITW/SITW	taxable but not subject to FITW/SITW	not taxable
20	employer provided home-to-work transportation	even if transportation is provided for security reasons (note 14).		
21	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.
22	Thrift Savings Plan (TSP)	For traditional TSP contributions, taxes are deferred until contributions are withdrawn. However, taxes are withheld for those who make Roth TSP contributions, since Roth contributions are after-tax contribution.		if TSP contribution is made from pay earned in a CZ or QHDA (for commissioned officers, limited to maximum monthly CZTE amount).
23	waived portion of court martial forfeiture of taxable pay or pay and allowances (Chapter 48)	see subparagraph Chapter 48, 480307.C.		

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

NOTES:

1. 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 FITW, however, will not be subject to 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.
2. If a member receives an overpayment of a taxable pay item, then the overpayment should be reported in the year paid unless the CZ or QHDA 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.
3. 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.
4. 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, [IAW 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.
5. 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 CZ or QHDA tax exclusion. (See subparagraph [350203.B.](#))
6. Effective April 1, 1996 for CZ and QHDA 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 Chapter 1, 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.
7. Only pay and allowances actually earned during any month in which a CZ or QHDA 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. The tax exempt computation for the NCSB and SLRP will be the number of months in the CZ/QHDA 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.
9. See [Chapter 35](#), paragraph [350504](#) for exceptions to the normally taxable payment of disability severance pay.

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

NOTES: (cont.)

10. This does not apply to fines imposed by courts-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.
11. 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.
12. Exception is pay earned for any month CZ or QHDA exclusion applies. CZs and QHDAs are so designated by Executive Order or statute, respectively.
13. SSB and VSI payments remain taxable even if a member signs the agreement to separate while serving in a CZ or QHDA.
14. Home-to-work provided transportation and employer provided parking.
 - a. Per [the DoD Manual 4500.36-R](#), the [USD Comptroller](#) 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 will:
 - (1) Identify members receiving government employer-provided home-to-work transportation and/or parking fringe benefit;
 - (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); and
 - (3) Generate an IRS 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 IRS Form W-2.

*Table 44-2. 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.

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

	A	B	C	D
R U L E	When a member who has arranged with IRS for installment collection of delinquent taxes	and	then	and
4	enters a period of unauthorized absence for which pay and allowances are not payable	is a member of the Navy or Marine Corps and a T allotment has not been established	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	notify IRS of the member's separation.
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)	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.
6	has qualified for collection deferment because of service in a CZ or enters hospitalized/missing status as a result of service in a CZ (see note)		defer initiating collection effective the month entering such status	commence collection IAW paragraph 440203 B.6.

NOTE: Includes direct support of CZ operations.

*BIBLIOGRAPHY

CHAPTER 44 - WITHHOLDING INCOME TAX

4402 - WITHHOLDING FROM CURRENT PAY

440201	Treasury Regulation 1.162-1(b)
440202.A	26 U.S.C. § 3401(a)(1) IRS Publication 3
* 440202.B	IRS Publication 80 (2016) 31 Code of Federal Regulations (C.F.R.) Part 215 Treasury Financial Manual (TFM), Volume 1, Part 3, Chapter 5000
440203.A and C	26 U.S.C. § 112
440203.A.1	Executive Order 12744, January 17, 1991
440203.A.2	Executive Order 13119, March 24, 1999
440203.A.3	Executive Order 13239, September 19, 2001
* 440203.A.4	Public Law 106-21 26 U.S.C. § 112
* 440203.B.5	IRS Notice 2002-17, question, and answer 6 37 U.S.C. § 310 DoDI 1340.25
440205.B	26 U.S.C. § 3402I
440206	TFM, Volume 1, Part 3, Chapter 5000
440206.B	50 U.S.C. Appendix 574
440206.C	TFM, Part 3, Chapter 5000
440206.D	TFM 3-5070 TFM, Part 3, Chapter 5000
440207	26 U.S.C. § 871
440207.A.2	26 C.F.R. 301.7701(b)-1
440208	26 U.S.C. § 3507 Public Law 95-600, November 6, 1978 Public Law 111-226, August 10, 2010

4403 - COLLECTION OF DELINQUENT FEDERAL TAXES BY LEVY

440301	26 U.S.C. § 6321(a) 26 U.S.C. § 6331 Public Law 100-647, November 10, 1988
440303	26 U.S.C. § 7508 Internal Revenue (IR) Manual, 53(10)6.1 Treasury Regulation 1.112-1(j) Treasury Regulation 1.112-1(e)
440304	26 U.S.C. § 6331, 6334 Public Law 100-647, November 10, 1988

Figure 44-1

Djibouti	Under Secretary of Defense Personnel and Readiness (USD (P&R)) Memo, November 21, 2002
* Federal Republic of Yugoslavia (Serbia and Montenegro)	USD (P&R) Memo, March 26, 2009
Jordan	USD (P&R) Memo, December 14, 2001
* Kyrgyzstan	USD (P&R) Memo, December 14, 2001 USD (P&R) Memo, December 31, 2013 26 (C.F.R.), Part 1, § 1.112-1 (e)
* Lebanon	USD (P&R) Memo, October 21, 2015
Pakistan	USD (P&R) Memo, December 14, 2001
Philippines	Assistant Secretary of Defense (ASD) Force Management & Personnel Memo, October 31, 2002
*	ASD Manpower and Reserve Affairs Memo, December 31, 2015
Somalia	USD (P&R) Memo, October 17, 2006
Syria	USD (P&R) Memo, January 7, 2005
* Tajikistan	USD (P&R) Memo, December 14, 2001 USD (P&R) Memo, December 31, 2013 26 C.F.R., Part 1, § 1.112-1 (e)
* Uzbekistan	USD (P&R) Memo, December 14, 2001 USD (P&R) Memo, December 31, 2013 26 C.F.R., Part 1, § 1.112-1 (e)
Yemen	ASD (FM&P) Undated Memo

Table 44-1

Rules 5 and 6	Public Law 104-117, March 20, 1996, 109 Stat 827
Rule 7	Treasury Regulation 1.112-1 Public Law 104-117, March 20, 1996, 109 Stat 827 Waterman v. Commissioner, 179 F.3d 123 (4th Circuit. 1999)
Rule 10	Public Law 94-212, February 9, 1976
Rule 11	Revised Rule 77-350, IR Bulletin No. 40, October 3, 1977 Treasury Regulation 1.62-2 Treasury Regulation 31.3401(a) 31 CFR 215.8
Rule 15	Public Law 108-121, § 102, November 11, 2003
Rules 21 and 22	Treasury Regulation 1.162-1(b) (5) and 1.262-2(e) IRS Notice 94-3 10 U.S.C. § 2637
Notes 2 and 3	IRS Revenue Ruling 79-311 Treasury Regulation 1.61-12
Note 4	Public Law 106-419, § 105, November 1, 2000
Notes 5 and 12	Public Law 104-117, March 20, 1996, 109 Stat 827
Note 7	26 U.S.C. § 112

Note 11
Note 14

26 U.S.C. § 134
IRS Publication 15-B

Table 44-2

* Rule 6
Note

26 U.S.C. § 7508
IRS Notice 951 (February 1991)