

**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 **July 2016** is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
440202.A.1	Removed subparagraph on “Combat Zone Tax Exclusion (CZTE) Prior to March 20, 1996” and renumbered subsequent subparagraphs.	Deletion
440203.A	Updated locations in Figure 44-1.	Revision
440203.D.4	Added clarifying language for claiming tax abatement.	Addition
440206.D	Removed the previous Figure 44-2 on “States and Territories That Entered Withholding Agreements With Treasury” and added a hyperlink to the Treasury Financial Manual.	Deletion Addition
440207.A	Removed the subparagraph on the definition of Non-Resident Alien.	Deletion.
440208	Removed the obsolete paragraph on “Advance Payment of Earned Income Credit Amounts.”	Deletion
Figure 44-1	Added Turkey as a “Designated Direct Support Area of a Combat Zone.”	Addition
Figure 44-2	Replaced previous Figure 44-2 with a list of the “Designated Combat Zone Areas.”	Addition
Figure 44-3	Added figure to list the “Qualified Hazardous Duty Areas.”	Addition
Table 44-1 Rule 9	Added a note for waived forfeitures.	Addition
Table 44-1, Rule 16	Added death gratuity as a non-taxable benefit.	Addition
Table 44-1, Rule 18	Updated the federal flat rate withholding tax.	Revision
References	Renamed “Bibliography” to “References” and updated statutes and supporting references.	Revision

Table of Contents

4401 GENERAL ..... 3

    440101. Purpose ..... 3

    440102. Authoritative Guidance ..... 3

4402 WITHHOLDING FROM CURRENT PAY ..... 3

    440201. Wages Subject to FITW and SITW ..... 3

    \*440202. Wages Not Subject to FITW and SITW ..... 3

    \*440203. CZTE for Active Service in a CZ, QHDA or in Direct Support of a CZ or QHDA  
     ..... 4

    440204. Tax Abatement for Death Caused by Terrorist or Military Action Overseas ..... 7

    440205. Rate of Withholding ..... 8

    \*440206. State and Local Taxes ..... 8

    440207. Nonresident Aliens ..... 9

4403 COLLECTION OF DELINQUENT FEDERAL TAXES BY LEVY ..... 9

    440301. Authority ..... 9

    440302. Levy Processing Procedures ..... 9

    440303. Effect on Members in a CZ or QHDA ..... 10

    440304. Attachment of Earnings and Payment to IRS..... 11

4404 INSTALLMENT COLLECTION OF DELINQUENT TAXES ..... 11

    440401. Agreement for Liquidation of Federal Tax Indebtedness by Payroll Deductions..  
     ..... 11

    440402. Change of Member’s Status During Liquidation Period..... 11

\*Figure 44-1. Designated Direct Support Areas of a CZ ..... 12

\*Figure 44-2. Designated CZ Areas ..... 14

\*Figure 44-3. QHDA ..... 15

\*Table 44-1. Taxability of Items of Military Pay and Allowances ..... 16

Table 44-2. Collection of Delinquent Taxes by Installment - Change of Member’s Status .... 23

\*REFERENCES ..... 25

## 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 authoritative references are listed at the end of this chapter.

## 4402 WITHHOLDING FROM CURRENT PAY

## 440201. Wages Subject to FITW and SITW

The taxable pay of all Service members is subject to FITW and SITW, [except as listed in paragraph 440202](#). See Table 44-1. The taxable value of certain non-cash fringe benefits is also subject to federal and applicable state income taxes. See Table 44-1, rules [21](#) and [22](#).

## \*440202. Wages Not Subject to FITW and SITW

A. Combat Zone (CZ) Tax Exclusion (CZTE)

1. Effective November 21, 1995. All compensation of an enlisted member or warrant officer received [for](#) a month in which the enlisted member or warrant officer performed active duty in a CZ or Qualified Hazardous Duty Area (QHDA) ([referenced](#) in subparagraph 440203.A) qualifies for [the](#) CZTE under subparagraph 440203.B. 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 for [the](#) CZ or QHDA tax exclusion under subparagraph 440203.B.

2. Maximum CZTE. The amount of the maximum combat zone tax exclusion in effect for a qualifying month equals the sum of the [basic pay for the senior enlisted member](#) ([see Chapter 1](#)) and the amount of hostile fire or imminent danger pay actually payable to the officer for the qualifying month. Also see Table 44-1, rules 1 through 4.

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 [or domicile](#) (as

determined by applicable territorial laws and the Servicemembers Civil Relief Act under Title 50, United States Code (U.S.C.), [section 4001](#)) and are serving:

1. On active duty in the regular or reserve components of the:
  - (a) Army;
  - (b) Navy;
  - (c) Air Force;
  - (d) Marine Corps; or
  - (e) Coast Guard;
2. In the National Guard and participating in exercises or performing duty under [32 U.S.C. § 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 in Direct Support of a CZ or QHDA

\* A. [Locations.](#)

1. [Designated Direct Support Areas of a CZ.](#) Figure 44-1 contains the CZ designated direct support areas as of September 19, 2016. For the most current areas, see the [Designated Direct Support Areas of a Combat Zone \(CZ\)](#) table.
2. [Designated CZ Areas.](#) Figure 44-2 contains the designated CZ areas and the Executive orders authorizing the designations, as of September 19, 2001. For the most current CZ areas, see the [Combat Zone Tax Exclusion \(CZTE\)](#) table.
3. [QHDA.](#) Figure 44-3 contains the QHDAs and the public laws authorizing the QHDAs, as of December 22, 2017. For the most current QHDAs, see the [Qualified Hazardous Duty Areas](#) table.

B. [Qualification for CZTE for Active Service in a CZ, QHDA or in Direct Support of a CZ or QHDA.](#) A Service member is entitled to CZ or QHDA tax exclusion for any month during any part in which:

1. [Active Service.](#) The member performs active service in a CZ or QHDA designated area. 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 are periods of active service.

2. Prisoner Of War (POW) or Missing In Action (MIA). The member becomes a **POW** or **MIA** while in active service in a CZ or QHDA. Such personnel are deemed, to continue in active service in the CZ or **QHDA** for the period for which they are entitled to a **POW** or **MIA** status for military pay purposes.

3. Absence. The member is granted official leave, or is authorized to depart from assigned duty in a CZ or QHDA for other lawful cause, and is directed to perform Temporary Additional Duty or Temporary Duty (**TAD/TDY**), unless the member is absent for the entire calendar month for leave or **TAD/TDY**.

4. Airspace. The member 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 **TAD/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 are 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 **TAD/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 **TAD/TDY** in the airspace (CZ) during that period.

5. **Direct Support.** The member 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. § 351](#). (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 (USD) for Personnel and Readiness (P&R) is responsible for designating direct support areas in accordance with (IAW) Department of Defense (DoD) 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 receive 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 TAD/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. 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, **because the act of transporting necessary supplies is a function included within the concept of providing direct support of military operations.**

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 **and** 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. Hospitalization. The member is hospitalized or re-hospitalized in any location 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. 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.

\* D. 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 is exempt from federal income tax for:

- a. The tax year in which death occurs, and
- b. Any prior tax year ending on or after the first day served in a CZ or QHDA.

2. Income tax liability is forgiven for any federal income tax owed for a prior year that remains unpaid on the date of death.

3. 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 subparagraph 440203.D.1, the date of death is the date of the determination and not earlier. The tax abatement rules in subparagraph 440203.D.1 do not apply for any taxable year that begins more than 2 years after it is determined that the area in which the Service member went missing is no longer a CZ or QHDA under 26 U.S.C. § 112.

\* 4. The deceased member's survivors, executor, or administrator may contact the Internal Revenue Service (IRS) for guidance in claiming the tax abatement.

E. Termination Date Other Than Cases of Hospitalization. In no case will the tax exclusion authorized in subparagraphs 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 (excluding training exercises) qualifies for federal tax abatement under the provisions of 26 U.S.C. § 692(c). No

[federal income tax liability is imposed on](#) the deceased member for the year of death and for prior tax year(s) beginning with the tax year before the injuries or wounds occurred. The deceased member's survivors, executor, or administrator [may](#) contact the IRS for guidance in claiming the tax [abatement](#).

440205. Rate of Withholding

A. General. The FITW/SITW will be IAW Treasury Department Circular E and Treasury Department regulations governing [SITW](#) 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 [solely](#) 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 [DoD](#) (DD) Form 2058, State of Legal Residence Certificate.

C. Native Americans. Native American Service members who claim a federally recognized tribal reservation as their state of legal residence [are](#) 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 2058-2, Native American SITW Exemption Certificate.

\* D. Withholding. Compensation for military service that is subject to federal taxation is also 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 [the current States/Territories withholding agreements with the Treasury Department from the Treasury Financial Manual or DFAS.mil](#).

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 systems.

F. Delinquent Taxes. DoD has no authority to involuntarily collect delinquent state tax liabilities of members.

440207. Nonresident Aliens

A. 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 United States, even if such pay is not subjected to FITW because of the provisions in subparagraph 440207.B. A nonresident alien member's pay attributable to service performed outside the United States is not subject to U.S. income tax. 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 because of a nonresident alien status.

B. Income Tax Withholding. The pay of a nonresident alien for any period of service within the United States 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 United States of 60 calendar days or less, or for service outside the United States, 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 United States, and is responsible for reporting and paying any tax due on, all such income.

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), 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 [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 criteria listed in [subparagraph 440303.A](#). [The levy deferment](#) begins again (including a new 180-day clock) when a member re-qualifies for deferment (again meets one of the criteria listed in [subparagraph 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 2159, Payroll Deduction Agreement. A member may not cancel an agreement once it is in effect. The Military Services handle agreements [in accordance with subparagraphs 440401.A through C.](#)

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. Designated Direct Support Areas of a CZ

The most current listing is on the Designated Direct [Support Areas of a Combat Zone \(CZ\)](#) table.  
Note 1

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 2)	July 1, 2002	
Jordan – Personnel serving in Jordan due to their service in direct support of military operations in the Afghanistan CZ (note 2)	September 19, 2001	
Jordan – Personnel serving in direct support of military operations in the Arabian Peninsula CZ (note 3)	March 19, 2003	
Kyrgyzstan – Personnel serving in Kyrgyzstan due to their service in direct support of military operations in the Afghanistan CZ (note 2)	September 19, 2001	May 31, 2014 (note 2)
Lebanon – Personnel serving in direct support of military operations in the Arabian Peninsula CZ (note 3)	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 2)	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 2)	January 9, 2002	September 30, 2015
Somalia – Personnel serving in: <ol style="list-style-type: none"> <li>1. Somalia due to their service in direct support of military operations in the Afghanistan CZ;</li> <li>2. Somalia airspace; or</li> <li>3. Water area of the Somali Basin including the following coordinates: <ul style="list-style-type: none"> <li>- 11°10'N-51°15'E;</li> <li>- 06°00'N-48°30'E;</li> <li>- 05°00'N-50°30'E;</li> <li>- 11°30'N-53°34'E;</li> <li>- 05°00'N-50°30'E;</li> <li>- 01°00'N-47°00'E;</li> <li>- 03°00'S-43°00'E;</li> <li>- 01°00'S-41°00'E; and</li> <li>- 06°00'N-48°30'E (note 2)</li> </ul> </li> </ol>	January 1, 2004  January 1, 2007 January 1, 2007	

\*Figure 44-1. Designated Direct Support Areas of a CZ (Continued)

The most current listing is on the Designated Direct [Support Areas of a Combat Zone \(CZ\)](#) table. Note 1

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 2)	January 1, 2004	
Tajikistan – Personnel serving in Tajikistan due to their service in direct support of military operations in the Afghanistan CZ (note 2)	September 19, 2001	May 31, 2014 (note 2)
*Turkey – Personnel serving east of the 33.51 degrees East Longitude due to their service in direct support of military operations in the Arabian Peninsula CZ (note 3)	September 19, 2016	September 18, 2021
Uzbekistan – Personnel serving in Uzbekistan due to their service in direct support of military operations in the Afghanistan CZ (note 2)	September 19, 2001	May 31, 2014 (note 2)
Yemen – Personnel serving in Yemen due to their service in direct support of military operations in the Afghanistan CZ (note 2)	April 10, 2002	

**NOTES:**

1. In order to have CZTE treatment of wages for services performed in a designated direct support area, a member must be entitled to hostile fire or imminent danger pay while performing service in the designated direct support area.
2. The Afghanistan CZ is the area designated by Executive Order 13239.
3. The Arabian Peninsula CZ is the area designated by Executive Order 12744.

\*Figure 44-2. Designated CZ Areas

The most current listing is on the [Combat Zone Tax Exclusion \(CZTE\)](#) table.

Authority	Location(s)	Effective Dates	
		From	Through
Executive Order 12744 (The Arabian Peninsula Areas)	Arabian Sea North of 10 degrees North Latitude; and West of 68 degrees East Longitude; Bahrain; Gulf of Aden; Gulf of Oman; Persian Gulf; Iraq; Kuwait; Qatar; Oman; Red Sea; Saudi Arabia; and United Arab Emirate	January 17, 1991	
Executive Order 13119	Albania; The Adriatic Sea; The Federal Republic of Yugoslavia (Serbia/Montenegro); and The Ionian Sea north of the 39 <sup>th</sup> parallel	March 24, 1999	
Executive Order 13239	Afghanistan	September 19, 2001	

\*Figure 44-3. QHDA

The most current listing is on the *Qualified Hazardous Duty Areas* table.

See Note

Authority	Location(s)	Effective Dates	
		From	Through
Public Law 104-117	Bosnia; Croatia; Herzegovina; and Macedonia	November 21, 1995	
Public Law 106-21	Albania; The Adriatic Sea; The Federal Republic of Yugoslavia (Kosovo/Serbia/Montenegro); and The Ionian Sea north of the 39 <sup>th</sup> parallel	March 24, 1999	
Public Law 115-97	Egypt (Sinai Only)	June 9, 2015	

**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.

\*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 that CZ or QHDA exclusions do not apply (notes 5 and 6).		when earned in a CZ or QHDA. For limits applicable to commissioned officers' (O-1 and above) pay, see subparagraph 440202.A.2 (notes 5, 6 and 7); for members in a missing status, see subparagraph 440203.B.2.
2	incentive pay or hazardous duty pay (see Chapters 22 through 24)			
3	special pay (see Chapters 3, 5, 8, 10, 11, 15, 17, and 18)			
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.		(reenlists, extends, signs agreement) in a month during which CZ or QHDA exclusion applies, regardless of whether the member fulfills the bonus contract service requirement before entering or after returning from the CZ or QHDA.
6	National Call to Service Bonus (NCSB) or Education Loan Repayment Program (ELRP)			for the NCSB for the actual months that are served in a CZ or QHDA during the initial 15 months of service following initial entry training; and for the ELRP for the actual month served in a CZ or QHDA out of the 12-month period. (note 6 and note 8)



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
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 (note 10)			and is loss of entitlement to pay in the amount of the forfeiture (however, remaining pay is subject to tax withholding (note 11)).
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 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.

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
11	an incentive payment paid to member for do-it-yourself move per Volume 9, Chapter 6, paragraph 060302	at time of payment.		
12	muster duty allowance	at time of payment under the provisions of <a href="#">Chapter 58</a> , subparagraph 580205.B.		
13	funeral duty allowance	at time of payment.		
14	personal money allowance	and will be reported on <a href="#">IRS W-2</a> .		
15	an allowance (Basic Allowance for Subsistence, Basic Allowance for Housing, Family Separation Allowance, clothing and uniform allowances, and overseas station allowances) (note <a href="#">12</a> )			at any time.

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
<b>*16</b>	death gratuity			at any time.
<b>17</b>	an otherwise taxable item of pay earned by member but unpaid at death		and will be reported on IRS 1099-MISC when paid to beneficiary (note 13).	if the pay was subject to the CZ or QHDA exclusion. See Rules 1-4.
<b>*18</b>	special separation bonus or voluntary separation incentive (VSI)	at the flat withholding rate (currently 22 percent) for FITW and at the appropriate SITW rate for Special Separation Bonus payments and initial VSI payments. Withhold taxes from VSI installment payments at the annual withholding rate contained in IRS Circular E (note 14).		
<b>19</b>	inactive duty training (IDT) pay	at time of payment (CZTE does not apply to pay for IDTs).		
<b>20</b>	former captive payment (see Chapter 37)		if payment is for former captive status resulting from a lawful action. Payment will be reported on IRS W-2 (note 13).	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
21	employer provided home-to-work transportation	even if transportation is provided for security reasons (note 15).		
22	employer-provided parking	to the extent that the value exceeds the monthly exclusion limit (note 15).		to the extent that the value is equal to or less than the monthly exclusion limit.
23	Thrift Savings Plan (TSP)	for Roth TSP contributions, since Roth contributions are after-tax contributions.	For traditional TSP contributions, taxes are deferred until contributions are withdrawn.	if TSP contributions are made from pay earned in a CZ or QHDA (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 Chapter 48.		

**NOTES:**

- Whether military pay and allowances are subject to state income taxes depends upon the law of the member's state of legal residence. Items of pay and allowances that 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.
- If a member receives an overpayment of a taxable pay item, the overpayment should be reported in the year paid unless the CZ or QHDA tax exclusion applies. If recovery of the overpayment is waived, remitted, or canceled, then there are 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.

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

3. Taxable wages and withholding must reflect the debt in the year the overpayment was received. Collection action will impact 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 [Chapter 35](#), subparagraph 350203.B.)
6. For commissioned officers (O-1 and above), the amount of the maximum CZTE in effect for a qualifying month equals the sum of the basic pay for the senior enlisted member (grade E-9) payable (Basic Pay – Enlisted, Note 3) plus the amount of hostile fire or imminent danger pay actually payable to the officer for the qualifying month.
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 ELRP will be the number of months in the CZ/QHDA divided by 15 months for the NCSB or 12 months for the ELRP. 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 taxation of disability severance pay.
- \*10. This does not apply to waived forfeitures, which are subject to FITW and FICA withholding. See Chapter 48.
11. 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.
12. 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.
13. Exception is pay earned for any month CZ or QHDA exclusion applies. CZs and QHDAs are so designated by Executive order or statute, respectively.
14. Special Separation Bonus and VSI payments remain taxable even if a member signs the agreement to separate while serving in a CZ or QHDA.

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

15. 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 **will** annually 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. **Valuation** must be accomplished utilizing the provisions of the Internal Revenue Code (See IRS Publication 15-B) and Treasury Regulations. Each member's Service will:
    - (1) Identify members receiving government employer-provided home-to-work transportation and/or parking fringe benefits;
    - (2) Certify fringe benefits **are** 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 benefits (such as parking) calculates the value of the benefit provided, and the member's Service verifies the correctness of the calculation; **and**
    - (3) Keep members **who receive** such benefits advised of the tax liability annually accruing to them.
  - d. Each member's certified taxable fringe benefits 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 member's gross income;
    - (2) Withhold and deduct appropriate federal and state income taxes (not FICA taxes); and
    - (3) Generate an IRS 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 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 the 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)

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
<b>R U L E</b>	<b>When a member who has arranged with the IRS for installment collection of delinquent taxes</b>	<b>and</b>	<b>then</b>	<b>and</b>
<b>4</b>	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.
<b>5</b>		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.
<b>6</b>	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 and QHDAs.



## \*REFERENCES

## CHAPTER 44 - WITHHOLDING INCOME TAX

## 4402 - WITHHOLDING FROM CURRENT PAY

440201	Treasury Regulation 1.162-1(b)
440202.A	26 U.S.C. § 112 IRS Publication 3 (2017)
440202.B	IRS Publication 80 (2017) Title 31, Code of Federal Regulations (CFR), part 215 Treasury Financial Manual (TFM), Volume 1, Part 3, Chapter 5000
440203.A and C	26 U.S.C. § 112
440203.B	IRS Publication 3 (2017)
440203.B.5	IRS Notice 2002-17, Question and Answer 6 37 U.S.C. § 351 DoDI 1340.25
* 440203.E.3	IRS Publication 3 (2017)
* 440204	26 U.S.C. § 692(C)
440205.B	26 U.S.C. § 3402I
440206	TFM, Volume 1, Part 3, Chapter 5000
440206.B	50 U.S.C. § 4001
440206.C	TFM, Volume 1, Part 3, Chapter 5000
440206.D	TFM Volume 1, Part 3, section 5070 TFM, Part 3, Chapter 5000
440206.E	Defense Finance and Accounting Service-Denver DGM Memo, March 18, 1993
440207	26 U.S.C. § 871
440207.A.2	26 CFR 301.7701(b)-1
440208	26 U.S.C. § 3507

## 4403 - COLLECTION OF DELINQUENT FEDERAL TAXES BY LEVY

440301	26 U.S.C. § 6321(a) 26 U.S.C. § 6331
440303	26 U.S.C. § 7508
440304	26 U.S.C. §§ 6331, 6334

## \*Figure 44-1 – DESIGNATED DIRECT SUPPORT AREAS OF A CZ

Djibouti	Office of the USD (OUSD) (P&R) Memo, November 21, 2002
Federal Republic of Yugoslavia (Serbia, Kosovo, and Montenegro)	OUSD (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 CFR, section 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 (FM&P) Memo, October 31, 2002 ASD Manpower and Reserve Affairs Memo, December 31, 2015
Somalia	OUSD (P&R) Memo, October 17, 2006
Syria	OUSD (P&R) Memo, January 7, 2005
Tajikistan	USD (P&R) Memo, December 14, 2001 USD (P&R) Memo, December 31, 2013 26 CFR, section 1.112-1 (e)
*	
Turkey	OUSD (P&R) Memo, April 13, 2017
Uzbekistan	USD (P&R) Memo, December 14, 2001 USD (P&R) Memo, December 31, 2013 26 CFR, section 1.112-1 (e)
Yemen	ASD (FM&P) Memo, August 13, 2002

\*Figure 44-2 – DESIGNATED CZ AREAS

Executive Order 12744, January 17, 1991  
Executive Order 13119, March 24, 1999  
Executive Order 13239, September 19, 2001

\*Figure 44-3 – QHDA

Public Law 104-117, March 20, 1996  
Public Law 106-21, April 19, 1999  
Public Law 115-97, section 11026, December 22, 2017

\*Table 44-1 – TAXABILITY OF ITEMS OF MILITARY PAY AND ALLOWANCES  
26 U.S.C. § 112

Rules 5 and 6	IRS Publication 3 (2017)
Rule 7	Treasury Regulation 1.112-1 26 U.S.C. § 112 Waterman v. Commissioner, 179 F.3d 123 (4th Circuit. 1999)
Rule 10	Public Law 94-212, February 9, 1976
Rule 11	Treasury Regulation 1.62-2 Treasury Regulation 31.3401(a) 31 CFR 215.8
* Rule 16	26 U.S.C. §134(b)
* Rule 18	IRS Notice 1036 (December 2018)
Rule 20	Assistant Secretary of Defense (ASD) Force Management and Personnel (FM&P) Memo, January 15, 1987 Department of the Treasury Office of Chief Counsel Memo June 24, 1988 Office ASD(FM&P) Memo, November 18, 1991
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	Treasury Regulation 1.61-12
Note 4	38 U.S.C. § 3011
Notes 5 and 12	Public Law 104-117, March 20, 1996
Note 6	26 U.S.C. § 112
Note 7	26 U.S.C. § 112
Note 11	26 U.S.C. § 134
Note 15	IRS Publication 15-B

Table 44-2 – COLLECTION OF DELINQUENT TAXES BY INSTALLMENT - CHANGE OF MEMBER'S STATUS

Rule 6	26 U.S.C. § 7508
--------	------------------