

TAX BREAK FOR OPERATION ALLIED FORCE

April 13, 1999

QUESTION: **Reaction to the tax break for Operation Allied Force that President Clinton announced April 12? Explain the tax break.**

ANSWER: The Department of Defense and Service leadership, and certainly all of the soldiers, sailors, airmen, Marines and DoD civilian employees affected very much appreciate the President's announcement that he intends "to issue an executive order granting tax benefits to Americans serving in a combat zone or supporting combat efforts. . . . for our forces working to save Kosovo."

We have available in DDI copies of the statement issued by the White House yesterday [April 12]. That statement explains the tax benefits and also indicates that U.S. military personnel in certain areas will be eligible to receive Imminent Danger Pay of \$150 a month.

The executive order that the President has indicated he will be issuing essentially enlarges the qualifying area for tax treatment already in effect for U.S. military personnel serving in Croatia, Bosnia-Herzegovina, and the Former Yugoslav Republic of Macedonia. The tax exclusion and extension benefits will now include U.S. military personnel in the Kosovo area of operations. The Kosovo area of operations includes the Federal Republic of Yugoslavia (Serbia and Montenegro), Albania, the Adriatic Sea and the northern Ionian Sea (that is, north of the 39th parallel). It also encompasses the airspace above these areas, thus covering the aircrews of long-range bombers [e.g. B-2's from Missouri] and naval aircraft flying missions into the combat zone from outside the area.

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The tax benefit is in two forms. Qualifying U.S. military personnel will not have to pay 1999 federal income tax on all or part of their basic pay earned while in the combat zone. (The effective date of that combat zone will probably be specified as March 24 in the executive order.) Qualifying U.S. military personnel and U.S. civilians in support of military units in the designated combat zone will get an additional extension of as much as 180 days from the time they leave the combat zone, or the combat zone is terminated, to file their 1998 federal income tax returns and do most other acts required by the Internal Revenue Code.

Some members serving in Operation Allied Force may already be able to exclude income due to the continuing qualified hazardous duty area in Croatia, Bosnia-Herzegovina, and Macedonia. This would depend on where they performed duty in 1998.

QUESTION: Do these U.S. Service members participating in Allied Force have to file their taxes by April 15?

ANSWER: The short answer is "no." Under existing law [that is, under law in effect prior to the President's announcement], any Service member or Department of Defense civilian employee (whose tax home is outside the United States) serving outside of the United States on April 15 has an automatic two month extension for filing his or her federal income tax return. Most States also grant an automatic extension.

The President indicated his intent to sign an executive order that would grant to U.S. military personnel and U.S. civilians in support of military units in the designated combat zone an additional extension of as much as 180 days to file their 1998 federal income tax returns and do most other acts required by the Internal Revenue Code.

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QUESTION: **The President said he was "granting tax benefits to Americans serving in a combat zone or supporting combat efforts." Does that mean [see categories] will be covered by the executive order?**

ANSWER: The statement issued by the White House gives a lot of detail in terms of how the tax benefit will be applied. The President indicated he will be issuing an executive order codifying the categories of those who will be covered by the order but as of April 13, the order has not been issued.

CATEGORIES:

U.S. military support personnel in Italy and Germany, especially those directly supporting our air strikes, e.g. mechanics, ordnance people, etc?

Ans. Individuals who are in the combat zone or serving in direct support of operations in the combat zone and who are also receiving imminent danger pay for reasons associated with risks in the combat zone, also receive combat zone tax benefits, to include exclusion of pay from federal taxes and the filing extension. Thus, your typical Service member serving in support in Germany who is not receiving imminent danger pay would not get the tax benefit.

U.S. military in the U.S. supporting B-2 bomber missions over the Federal Republic of Yugoslavia (FRY)?

Ans. Nothing – no tax benefit.

B-2 bomber crews flying from the U.S. for strikes against the FRY?

Ans. They get the tax benefits because the airspace over the FRY is part of the designated combat zone.

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Emergency essential DoD civilians in the theatre? (The President said: "... the executive order will apply not only to personnel in the combat zone and others deployed overseas, but also for some civilian personnel as well, including accredited journalists and relief workers. It will suspend the time for filing tax returns and related obligations to the IRS.")

Ans. The tax exclusion applies only to military personnel; however, the filing extension can apply to DoD civilians and Red Cross personnel in the combat zone.

U.S. relief workers in theatre? Red Cross workers in theatre?

Ans. The tax exclusion applies only to military personnel; however, the filing extension can apply to DoD civilians and Red Cross personnel in the combat zone.

QUESTION: **How many individuals will get the new tax benefit?**

ANSWER: A very rough estimate is that up to 10,000 U.S. military personnel would be eligible at this time for the tax benefit the President announced yesterday.

QUESTION: **How long do you have to be in the combat zone to qualify for the tax exclusion?**

ANSWER: Any official presence for any part of a day or more in the designated combat zone qualifies a member for the tax benefits for that month.

It's expected that the executive order will apply the tax exclusion only to U.S. military members, and only to those serving in the specified areas as of or after 24 March [when Operation Allied Force began]. They will be able to exclude 1999 income beginning with the month of March

1999.

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QUESTION: **How much is the tax exclusion?**

ANSWER: The new executive order will probably extend the same benefit as that now existing for U.S. military personnel in Croatia, Bosnia-Herzegovina, and the Former Yugoslav Republic of Macedonia, specifically:

Enlisted members do not have to pay tax on their basic pay for any portion of any month spent in the designated area.

Officers can exclude an amount each month up to \$4,653 (that is, the maximum enlisted pay of \$4,503 per month plus imminent danger pay of \$150 per month).

QUESTION: **Is imminent danger pay non-taxable? If not, is it now exempt from federal income tax?**

ANSWER: Imminent danger pay is normally taxable; however, if a Service member qualifies for the combat zone tax exclusion, imminent danger pay can be excluded.

President Clinton's remarks at Barksdale Air Force Base, Louisiana, April 12:

"There's something else that, since it is now April the 12th, I think I ought to do. Our tax laws give the President the authority to issue an executive order granting tax benefits to Americans serving in a combat zone or supporting combat efforts. I want you to know that I will issue that executive order for our forces who are working to save Kosovo. (Applause.)

“This will mean that for military personnel serving in the combat zone, most or all pay for each month served will be tax-free, not withheld from paychecks, not subject to IRS claims later. They will also be eligible for some additional pay for service.

“There's another advantage to the executive order that will apply not only to personnel in the combat zone and others deployed overseas, but also for some civilian personnel as well, including accredited journalists and relief workers. It will suspend the time for filing tax returns and related obligations to the IRS. With our citizens working so hard to protect the people of Kosovo, they shouldn't have to worry about their taxes.

“Now, Secretary Cohen will work out all the details with the Treasury Department as soon as possible -- (laughter) -- he's got 72 hours. (Laughter.)

“You all have to have quicker turnaround than that. So he's going to fight with the tax person for you. “Let me say again, I know I speak for all of the members of Congress here in saying they support this. We have had remarkable bipartisan support from the leadership in Congress for this – Congressman Archer and Rangel, Senators Roth and Moynihan who have made it quite clear that they support what we are doing.”

Source:

MPP Compensation

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