

DEPLOYMENT TAX GUIDE



2002 TAX RETURNS

AFLSA/JACA
1420 Air Force Pentagon
Room 5C263
Washington, DC 20330
DSN 227-0413
Comm 703-697-0413

4 March 2003

CONTENTS

Purpose	3
Tax Assistance Programs in AOR	4
Tax Filing Options for Deploying Personnel	4
Filing Before Deployment	5
Authorizing Someone Else to File the Return	6
Signing and Filing of the Return by the Spouse	7
Combat Zone and Qualified Hazardous Duty	
Area Filing Extensions and Income Exclusions	8
Tax Forgiveness for Persons Killed in Qualifying CZ/QHDA Service and Terrorist or Military Action	13
Current Combat Zones and Qualified Hazardous Duty Areas	16
Summary of State Taxation Implications of CZ/QHDA Designations	18
Alabama, Alaska, Arizona	18
Arkansas, California, Colorado, Connecticut, Delaware	19
District of Columbia, Florida, Georgia, Hawaii, Idaho	20
Illinois, Indiana, Iowa, Kansas	21
Kentucky, Louisiana, Maine, Maryland	22
Massachusetts, Michigan, Minnesota	23
Mississippi, Missouri, Montana	24
Nebraska, Nevada, New Hampshire	25
New Jersey	26
New Mexico, New York	27
North Carolina, North Dakota, Ohio	28
Oklahoma, Oregon	29
Pennsylvania, Rhode Island	30
South Carolina, South Dakota, Tennessee	31
Texas, Utah, Vermont	32
Virginia, Washington, West Virginia	33
Wisconsin	34
Wyoming	35

PURPOSE

This guide discusses matters base legal office staffs and tax program managers should address in advising personnel preparing to deploy, on a deployment, and recently redeployed to home station, and their family members. Specific subjects include: tax-filing options for these members; federal deadline extension and income exclusion benefits for personnel deployed to, or in direct support of operations in, designated **combat zones (CZ)** and **qualified hazardous duty areas (QHDA)**; special provisions pertaining to members killed as a result of wounds, injuries, or illnesses incurred in a CZ or QHDA or killed as a result of wounds or injuries sustained in terrorist or military action; and a summary of state tax rules regarding taxpayers serving in CZ and QHDA.

CZ and **QHDA** are areas designated by Executive Order (CZ) or Congressional legislation (QHDA). Personnel serving in a CZ or QHDA, or providing "direct support" to operations in a CZ, may exclude most items of military compensation earned during months they serve in these locations from their income for federal income tax purposes. Extensions to a wide range of deadlines for tax actions, to include filing of the federal income tax return and payment of any tax owed, also apply. Most states extend similar benefits to military personnel deployed to a CZ or QHDA or providing direct support of operations in a CZ.

Members serving outside the CZ may take advantage of all the federal tax benefits if they:

- 1) have served in **direct support** of military operations in the CZ. The Office of the Secretary of Defense may determine members deployed to specific locations are providing direct support of operations in a CZ. A theater commander may be delegated authority to determine whether a member on a deployment to a particular location is providing direct support of operations in a CZ; **and**

- 2) have received imminent danger or hostile fire pay during the period in question. If the member was not entitled to either of these pay items, direct support did not occur and the tax filing extension and income exclusion benefits accruing from service in a CZ do not apply.

Members deployed overseas away from their permanent duty station in support of operations in a QHDA, or otherwise performing qualifying service outside the QHDA, are treated as if they are in a combat zone solely for the extension of filing deadlines. These personnel are not entitled to other combat zone tax benefits. As of March 2003, this distinction applies only to the QHDA for Bosnia, Herzegovina, Croatia and Macedonia. These are the only areas designated solely as a QHDA and not also designated as a CZ.

TAX ASSISTANCE PROGRAMS IN AOR

Currently, the Air Force does not operate formal tax programs in deployed areas. In the face of constant personnel turnover, the difficulties in maintaining training, continuity, and record-keeping present the principal impediments. Of related concern, either carrying or mailing the financial documents necessary to complete and file an income tax return creates a significant risk of loss or theft. The immediate consequence would at least entail some delay in filing as coordination with DFAS, IRS, and financial institutions followed. Additionally, whether lost, stolen or otherwise misappropriated, access to these types of documents would allow third parties, including foreign nationals hostile to the United States, the means to commit identity theft. Far-reaching adverse consequences would impact the member and potentially implicate security concerns as well.

TAX FILING OPTIONS FOR DEPLOYING PERSONNEL

Four principal options exist:

- 1) file before deployment;
- 2) authorize a spouse or other trusted individual to file the return;
- 3) for married couples who file jointly where one is deployed either to a CZ or QHDA or to a location outside the United States in direct support of operations in a CZ or QHDA, have the non-deployed spouse sign the return for the deployed member; or
- 4) take advantage of the filing extensions authorized for service in a CZ or QHDA.

Our members' primary focus in deployed locations should remain firmly on the mission at hand. For this reason, the federal government grants filing delays for personnel deployed to CZ and QHDA. As the outline of applicable states' rules below demonstrates, most states follow the federal government's lead in granting tax relief to personnel deployed to these locations, though the specific benefits vary from state to state.

The member's circumstances impact filing before deployment. An otherwise well-prepared member may have sufficient time to gather the necessary financial documents and file an accurate return, particularly if the deployment occurs later in the filing season. However, a member attempting to file early in the filing season, especially if he or she is on the eve of a deployment may do so before receiving or obtaining all the documentation necessary to report income accurately or to take advantage of all available deductions. He or she may not have the time to assess and take advantage of opportunities to reduce taxable income, for example, through IRA contributions. To some extent, the tax program volunteer offering assistance may alert the member to these issues. However, the workload at the tax center and the rush to file the

return before the member deploys increases the risk of oversight or error and raises the prospect of the need to file an amended return later.

Having the non-deployed spouse of a member deployed to, or in direct support of operations in, a CZ or QHDA, file the return is a legitimate option. However, married taxpayers that file jointly are liable for the errors or other problems affecting the joint return. The deployed member will most likely not see the finished return before filing and thus will not have the opportunity to review it and ensure its accuracy. Similarly, a member may authorize a spouse or other trusted person to file a return on his or her behalf. Discussion of the prerequisites and means of authorization follows below. Again, however, the deployed member will most likely not review the return before filing. As the taxpayer, the member would remain liable for errors or other problems affecting the return. Taking advantage of the filing extensions permitted for service in, or service in direct support of operations in, a CZ or QHDA allows the member the time and opportunity to file, and to seek assistance in filing, a completely accurate return.

Regardless of the disadvantages associated with filing in the midst of other preparations on the eve of deployment or having another person file on the member's behalf, many members will want to file to obtain an anticipated refund. The options below address both the means by which members may file their returns and the filing deadline and income exclusion benefits that apply for qualifying CZ and QHDA service.

Important: In the event a member deploys to a location neither in nor in direct support of operations in a CZ or QHDA, he or she will NOT be eligible for filing extensions applicable to those areas. At most, a member in this situation would qualify for the 15 June deadline applicable to overseas filers. However, the member would remain bound by the 15 April filing deadline if the deployment is completed before that date. As examples, deployment to Korea to take part in an exercise or to central or South America to support counterdrug operations would not involve a CZ or QHDA and would not qualify for the filing extensions applicable to those areas.

Filing Before Deployment

Per DFAS, **Forms W-2 for Air Force personnel are available as of 24 January 2003.** With only a couple of exceptions, Air Force tax programs completed the training of their volunteers by that date. Deliveries of the TaxWise software commenced and were completed by 24 January. The Air Force Communications Agency granted the essential Certificate of Networthiness on 19 December. Thus, nearly all Air Force tax programs were fully operational as of 24 January or, at the latest, the following Monday, 27 January. For personnel deploying from that point on, filing before deployment remains a viable option. With electronic filing services also on line, members can and should opt for direct deposit of any refund into their checking account.

This year, members will receive a W-2 in the mail. Additionally, for the first time, the form may

be accessed on line.

Members who have obtained a Personal Identification Number (PIN) can view and print their W-2s via the “My Pay Account” on the DFAS Web site at <https://emss.dfas.mil/mypay.asp>. By clicking the link titled “How Do I Get A New PIN?” on this webpage, members can enter their Social Security Number for direct mailing of a PIN to their address of record maintained by Finance.

In future years, DFAS intends to make Forms W-2 available earlier in January and to end mailing of these documents. As currently proposed, DFAS plans to implement these changes next year. Thus, the demand for tax assistance services at bases will come a few weeks earlier than has been the case through this year. Air Force tax programs will have to adapt to the new challenge, moving training into December or the first week of January at the latest.

The foundation to facilitate this change already exists. Program managers can attend the Air Force or Army tax course, both traditionally offered in December. This year, to secure IRS instructors, about 40% of Air Force programs shifted training into November and December (overwhelmingly December). Additional moves will have to occur to accommodate the earlier demand for assistance. Of note, the IRS prefers earlier training periods because January brings greater demands from their usual duties on the available instructors.

Authorizing Someone Else to File the Return

The IRS permits a taxpayer to appoint an agent to sign a tax return on the taxpayer’s behalf if one of the following situations applies:

- 1) the taxpayer is unable to sign the return because of disease or injury; or
- 2) the taxpayer is absent from the United States for a period of at least 60 days before the due date for filing the return; or
- 3) the taxpayer gets permission from the IRS office in his or her area to have another person file a return in his or her behalf.

Members serving in a CZ or QHDA, or who are deployed to other locations outside the United States, will generally qualify under the second prerequisite.

The IRS accepts two means of authorization: a power of attorney specifically authorizing the agent to sign and file the return or the IRS Form 2848 (Rev. January 2002).

The essential element of the power of attorney is specific language authorizing the signing and filing of the member’s federal income tax return. The special power of attorney for tax matters included on WebLIONS (<https://lions.jag.af.mil/pls/lionsdad/lionsweb.weblions>) uses this

language. Base legal offices must commence use of WebLIONS as of 1 January 2003. In the alternative (i.e., a temporary failure of a base computer network or FLITE), most bases have adopted special powers of attorney including this operative language.

The Form 2848 is a typical overly complicated and intimidating IRS form. It may be accessed in Adobe Acrobat fill-in format at <http://www.irs.gov/pub/irs-fill/f2848.pdf>. The instructions are at <http://www.irs.gov/pub/irs-pdf/i2848.pdf>.

A special power of attorney thus more simply and expeditiously accomplishes the necessary designation of an agent. Should the taxpayer want to use the Form 2848, note the following points in its preparation:

To Authorize an Agent to Sign and File the Return - The taxpayer must complete lines 1-3 of the form, check the box on line 4, and write the following statement in the space available on line 5: "This power of attorney is being filed pursuant to Treasury Regulations section 1.6012-1(a)(5), which requires a power of attorney to be attached to a return if the return is signed by an agent by reason of (*enter the specific reason permitting appointment of the agent* - for most deployed personnel it will be continuous absence from the United States for a period of at least 60 days prior to the date required by law for filing the return). No other acts on behalf of the taxpayer are authorized." **Note - the agent does not complete Part II of the Form 2848.** The taxpayer signs and dates the form at line 9.

To Authorize a Representative To Sign and File the Return and Represent the Taxpayer in Other Matters Before the IRS - The Form 2848 is preferred for this purpose - appointment of a representative to attend to matters including signing and filing the return and representing the member in tax matters before the IRS. The taxpayer must complete lines 1-3 but **not** check the box at line 4. For line 5, the taxpayer should include the same statement as required for authorizing the agent but **not** the language precluding other acts on behalf of the taxpayer. The taxpayer must decide on the options at lines 6-8 and sign the form at line 9. The representative must complete Part II. The declaration includes citing the letter designation under which the representative will represent the taxpayer (e.g., as the form in Part II indicates, 'a' for attorney, 'b' for CPA, 'f' for family member). The representative must also cite the jurisdiction under which he or she represents the taxpayer. Attorneys and CPAs list the state(s) in which they are admitted to practice; enrolled agents list their enrollment card numbers; family members states the relationship to the taxpayer. It must be immediate family - Spouse, Brother, Sister, Parent, Child. Finally, the representative signs the form.

Signing and Filing of the Return by the Spouse

For married couples filing a joint return only - Where a deployed member is unable to sign the return because he or she is serving in a CZ or QHDA, or is providing direct support of operations in the CZ or QHDA, the non-military or non-deployed spouse may sign and file the

return on the deployed member's behalf. A grant of authorization by special power of attorney or IRS Form 2848 is **not required**.

The spouse filing the return must attach a statement to the return explaining the member is serving in a CZ or QHDA and is therefore not available to sign the return. The specific CZ or QHDA should be cited in the statement.

Married couples filing separate returns cannot take advantage of this option.

Combat Zone (CZ) and Qualified Hazardous Duty Area (QHDA) Filing Extensions and Income Exclusions

Extension of Tax Filing Deadlines. Members who served in a CZ or QHDA are allowed additional time to take care of tax matters. The deadline for taking a wide range of actions with the IRS is extended for at least 180 days after the later of:

- 1) The last day the taxpayer is in a CZ or QHDA (or the last day the area qualifies as such); or
- 2) The last day of any continuous qualified hospitalization for wounds, disease, or injury sustained from service in the CZ or QHDA (qualified hospitalization is hospitalization that resulted from an injury received while serving in the combat zone).

In addition to the 180 days, the deadline is also extended by the number of days remaining for the member to take action with the IRS when he or she entered the CZ or QHDA. If the member entered this area before the time to take the action began, the deadline is extended by the entire time he has to take the action with the IRS as of the date of entry into the CZ or QHDA.

This extension applies automatically. Neither deployed members nor spouses at home need file an extension request with the IRS to take advantage of the filing extension granted as a result of qualifying CZ/QHDA service. As indicated in the summary of state rules below, many follow this federal rule. However, some states do require either filing a return or an extension request. Consult the summary below for each state's rules in this area.

Some examples illustrate the calculation of the filing extension:

- 1) A member in the CZ or QHDA from 1 October 2002 to 1 May 2003 will have 285 days from the date he leaves the area to file the 2002 return. This extension equals the 180-day extension, plus the full 105 days of the tax filing season because he was in the CZ or QHDA the entire filing season.

2) A member in the CZ or QHDA from 1 October 2002 to 15 January 2003 will have 285 days from the date he leaves the area to file the 2002 return. This extension equals the 180-day extension, plus the 105 days of the tax filing season because he was in the CZ or QHDA on 1 January. **Note** - If a member is serving in a CZ or QHDA, or in direct support of operations in a CA or QHDA, on **1 January**, he or she receives the **full 105 days** of the filing period as part of the deadline extension **even if** the return to home station occurs before 15 April.

3) A member entering the CZ or QHDA on 1 February 2003 and serving until 1 May 2003 will have 254 days from the date he leaves the CZ to file the 2002 return. This period of time is equivalent to the full 180-day extension, plus the 74 days remaining in the filing season when he entered the CZ or QHDA.

Actions Extended. The deadline extension provision applies to these tax actions:

- 1) Filing any return of income, estate, or gift tax (except employment and withholding taxes).
- 2) Paying any income, estate, or gift tax (except employment and withholding taxes).
- 3) Filing a petition with the Tax Court for redetermination of a deficiency or for review of a Tax Court decision.
- 4) Filing a claim for credit or refund of any tax.
- 5) Bringing a suit for any claim for credit or refund.
- 6) Purchasing a replacement residence to postpone paying tax on the gain on the sale of a previous residence.
- 7) Making a qualified IRA contribution.
- 8) Allowing a credit or refund of any tax by IRS.
- 9) Assessment of any tax by the IRS.
- 10) Giving or making any notice or demand by the IRS for the payment of any tax or for any liability for any tax.
- 11) Collection by the IRS of any tax due.
- 12) Bringing suit by the United States for any tax due.

Important: If the IRS takes any actions listed or sends a notice of examination before learning that the taxpayer qualifies for a deadline extension, the taxpayer should return the notice with "**COMBAT ZONE EXTENSION**" written across the top. No penalties or interest will be imposed for failure to file a return or pay taxes during the extension period. The IRS, however, will pay interest on a refund from the due date of the return if the return is timely filed after applying the deadline extension.

Spouses. Spouses of members serving in a combat zone are entitled to the same deadline extension when filing a return with two exceptions:

1) The extension does not apply to a spouse for any tax year beginning more than two years after the date the area ceases to be a combat zone.

2) The extension does not apply to a spouse for any period the qualifying individual is hospitalized in the United States for injuries incurred in a combat zone.

Civilians. The deadline extension provisions also apply to certain civilians serving in combat zone or a qualified hazardous duty area in support of the US Armed Forces, such as Red Cross personnel, accredited correspondents, and civilian personnel acting under the direction of the US Armed Forces in support of those forces. The extension is automatic and qualifying civilians need not file separately for an extension with IRS. As indicated in the summary of state rules below, many follow the federal rule on filing extensions. However, some states do require either filing a return or an extension request. Consult the summary below for each state's rules in this area.

Important: Taxpayers who have taken advantage of the deadline extension due to service in a CZ or QHDA should write "COMBAT ZONE" and the location or operation in which they served on the top front of their tax return when they file.

Income Exclusions. Armed forces members who serve in a CZ or QHDA or in direct support of operations in a CZ may exclude certain pay from their income. Any official presence in the CZ or QHDA during the month, even for just 1 day, will qualify the member for this exclusion. Likewise, if a member is hospitalized outside of the CZ or QHDA for part of a month as a result of wounds, disease, or injury sustained while serving in the CZ or QHDA, that member qualifies for the exclusion for the full month so long as combat activities remain in the CZ or QHDA. The member need not receive the pay while in CZ or QHDA, but it must be paid for service there or for a period during which he or she was hospitalized as a result of service there. The following military pay can be excluded from gross income for tax purposes:

1) Active duty pay earned in any month the member served in a CZ or QHDA.
Enlisted personnel and warrant officers who serve in a CZ or QHDA during any part of a

month can exclude all of their basic pay for that month from income. The amount of the exclusion for commissioned officers is limited to the highest rate of enlisted pay. For 2002, this amount is \$5,553 per month, a figure representing the \$5,383 payable monthly to the Chief Master Sergeant of the Air Force plus \$150 for hostile fire or imminent danger pay.

- 2) Imminent danger or hostile fire pay.
- 3) A dislocation allowance if the move begins or ends in a month the member served in a CZ or QHDA.
- 4) A reenlistment bonus if the voluntary extension or reenlistment occurs in a month the member served in a CZ or QHDA.
- 5) Pay for accrued leave earned in any month the member served in a CZ or QHDA.
- 6) Continuation pay **only if** the agreement to perform additional years of service is signed by the member in a month when he or she is serving in a CZ or QHDA.
- 7) Pay received for duties as a member of the armed forces in clubs, messes, post and station theaters, and other nonappropriated fund activities. The pay must be earned in a month the member served in a CZ or QHDA.
- 8) Awards for suggestions, inventions, or scientific achievements members are entitled to because of a submission they made in a month they served in a combat zone.
- 9) Student loan repayments made as part of the DoD Loan Repayment Program. Generally, these payments are compensation for services. They are excluded from income during the month(s) the member provides qualifying CZ and QHDA service.
- 10) The Redux Payment of \$30,000. This payment is considered a career service bonus (a type of special pay) available to certain members who execute a written agreement to remain on active duty until completion of 20 years of service and accept a reduced percentage in calculating pay on retirement. Generally, it is taxable income. However, it is excluded from income if the member executes the agreement to receive the payment while providing qualifying CZ or QHDA service.

Note - Military pay for CZ or QHDA service remains subject to Social Security and Medicare taxes. An outline of state rules on income exclusions follows later in this document.

Direct Support. As noted at page 3 of this guide, personnel providing **direct support** to operations in a CZ qualify for the income exclusions described above. Most often, DoD will

expressly designate areas to which CZ tax benefits apply due to direct support of operations in a CZ (e.g., Kyrgyzstan, Uzbekistan, Incirlik AB, Yemen, the Phillipines, Djibouti). Where a specific designation has not been made, the appropriate theater commander holds authority to determine whether a deployed member is serving in direct support of operations in a CZ. Again, this **direct support** requires a determination the member:

1) has served in **direct support** of military operations in the CZ; **and**

2) has received imminent danger or hostile fire pay during the period in question.

If the member was not entitled to either of these pay items, direct support did not occur and the tax filing extension and income exclusion benefits accruing from service in a CZ do not apply.

Members deployed overseas away from their permanent duty station in direct support of operations in a QHDA, or otherwise performing qualifying service outside the QHDA, are treated as if they are in a combat zone solely for the extension of filing deadlines. These personnel are not entitled to other combat zone tax benefits. Thus, they cannot exclude income from taxation for this service. As of March 2003, this distinction applies only to the QHDA for Bosnia, Herzegovina, Croatia and Macedonia. These are the only areas designated solely as a QHDA and not also designated as a CZ.

Civilians. Civilians serving in a CZ or QHDA in support of the US Armed Forces, such as Red Cross personnel, accredited correspondents, and civilian personnel acting under the direction of the US Armed Forces in support of those forces, are eligible only for the extension of filing and other deadlines to take tax actions discussed above. **Thus, federal civilian employees and civilian defense contractors deployed with US forces do not qualify for exclusion of income earned during the months they work in a CZ or QHDA.** At present, no legislation is pending to change this situation. **The income exclusion applies only to members of the uniformed military services.**

Civilian federal employees do qualify for tax forgiveness if they are killed as a result of terrorist or military action. Please see the discussion of this subject at pages 13 and 14 below.

Military pension or retired pay and separation payments. These payments are not earned as a result of service in the CZ or QHDA. For example, a military retiree who now serves with the Armed Forces in a civilian capacity cannot exclude his military retired pay from income during the months he works in the CZ or QHDA. Since it is not being paid to compensate for military service in the CZ or QHDA, the military retired pay does not qualify for the exclusion. Also not excluded - separation payments. A separation payment is not a payment for service in a CZ or QHDA. That the payment accrued during service in a CZ or QHDA or that the member received the payment while serving in a CZ or QHDA is irrelevant. Separation payments are not excluded from income.

Withholding/Reporting - While the member is entitled to the CZ/QHDA exclusion, income tax withholding does not apply to the excludible compensation. An accurate Form W-2 will report an amount in box 1 ("Wages, tips, other compensation") reduced by the amounts excluded from income as a result of qualifying CZ or QHDA service. Compensation earned during service in a CZ or QHDA remains subject to Social Security and Medicare taxation and withholding. The W-2 will report the member's military pay including amounts excluded due to qualifying CZ or QHDA service in the boxes titled "Social security wages" and "Medicare wages and tips." Because of changes in the law pertaining to the earned income credit, the IRS no longer requires reporting of the total amount of these items in box 12 of the Form W-2. Thus, the tabulation of nontaxable compensation items, such as BAH, BAS, and compensation exempt from taxation due to qualifying CZ or QHDA service, our members and tax program representatives are so familiar with will no longer be there.

Correct accounting of income exclusions for qualifying CZ/QHDA service relies upon proper filing and reconciliation of personnel and finance actions. Members who served during the year in a CZ or QHDA should review their W-2s carefully to ensure they reflect the exclusions of income. In the event a member believes the form has not properly accounted for the exclusions, he or she should consult with Finance immediately. A new and accurate W-2 can be obtained from DFAS.

Important: Members who serve in a CZ or QHDA should write "COMBAT ZONE" and the location or operation in which they served on the top front of their tax return.

Tax Forgiveness for Persons Killed in Qualifying CZ/QHDA Service and Terrorist or Military Action

Qualifying CZ and QHDA Service. Federal income tax liability is forgiven for armed forces members who die while serving in a CZ or QHDA or from wounds, injury, or disease incurred while serving in these areas. The decedent's income tax liability is forgiven for the tax year in which death occurs and for any earlier tax year ending on or after the first day the member served in the CZ or QHDA.

Any tax liability forgiven under this rule that the member has already paid will be refunded. Any unpaid tax liability existing at the date of death will be forgiven. Any unpaid taxes for prior years will be forgiven and any prior year taxes paid after the date of death will be refunded.

These provisions apply as well to members serving outside the CZ or QHDA if, as stated earlier, their service:

- 1) was in direct support of military operations in the CZ or QHDA; and

2) qualified the member for hostile fire or imminent danger pay.

Missing Status. The date of death of a member formerly listed as "missing" for determination of tax forgiveness or refund is the date his or her name was removed from missing status for military pay purposes. This rule applies even if the death actually occurred earlier.

Terrorist or Military Action Forgiveness. Tax liability is forgiven for an individual who:

- 1) is a military member or civilian federal employee at death; and
- 2) dies from wounds or injury incurred in a terrorist or military action. Such action includes any terrorist activity primarily directed against the US or its allies or any military action involving US forces resulting from violence or aggression directed against the US or its allies.

This tax liability forgiveness applies to the tax year death occurred and any earlier tax year beginning with the year before the one in which the wounds or injury occurred. For example, a member who died in 2002 from injuries sustained in a terrorist attack in 2001 qualifies for federal income tax forgiveness for the years 2000, 2001, and 2002. The individual filing tax returns for the decedent should file a Form 1040X to secure a refund of any taxes paid in the earlier years.

Joint Returns. Only the decedent's portion of the tax liability on a joint income tax return qualifies for the refund or tax forgiveness established for members killed in qualifying CZ/QHDA service or in terrorist or military action. The portion of the tax liability attributable to the surviving spouse's income is not refunded. In claiming the refund or forgiveness portion of the joint return, the decedent's portion of the tax liability must be calculated.

Community Property States. If the member was domiciled in a community property state at death and the spouse reported half the military pay on a separate return, the spouse can get a refund on taxes paid on this share for the years involved. Tax forgiveness for the spouse applies to any unpaid tax on the half share of the decedent's military pay for the years involved.

Claiming the Forgiveness or Refund. Generally, the period for filing a claim for credit or refund of income tax is 3 years from the time the return was filed or 2 years from the time tax was paid, whichever is later. Where death occurred in a CZ or QHDA, or from wounds, injury, or disease incurred in these areas, the deadline for filing a claim for credit or refund is extended. The extension period is 180 days plus the time remaining in the 3- or 2-year claim period (whichever is applicable as yielding the later filing date) when the decedent member entered the CZ or QHDA.

Filing for the Forgiveness or Refund. Two filing options exist:

- 1) *If the member did not file a tax return for the year in question* - File Form 1040 and attach Form W-2.
- 2) *If the member has already filed a tax return for the year in question* - File Form 1040X for each tax year affected.

For decedents of qualifying CZ or QHDA service, all returns and claims must identify the "OPERATION NAME--KIA" in bold letters at the top of page 1. Examples: ENDURING FREEDOM--KIA or DESERT STORM--KIA. On Forms 1040 and 1040X, write the same identifier on the line for "Total Tax."

For decedents of terrorist or military action, write "KITA" and the incident description at the same locations on the same documents as discussed immediately above. Examples: KITA--9/11 or KITA--Anthrax.

An attachment computing the decedent's tax liability before any amount is forgiven and the amount to be forgiven or refunded should accompany the return or claim.

Important: All returns and claims for refund for decedents killed during qualifying CZ or QHDA service must include:

1) **IRS Form 1310**, *Statement of Person Claiming a Refund Due a Deceased Taxpayer*; and

2) **DD Form 1300**, *Report of Casualty*.

Where to File.	Via US mail:	Internal Revenue Service P.O. Box 4053 Woburn, MA 01888
	Via Private Delivery Service:	Internal Revenue Service 310 Lowell Street Stop 661 Andover, MA 01810

CURRENT COMBAT ZONES (CZ) AND
QUALIFIED HAZARDOUS DUTY AREAS (QHDA)
As of 10 January 2003

For each of the areas described below, the CZ or QHDA includes the land and sea areas described and the airspace above them.

1) **Persian Gulf Area CZ (OPERATION DESERT STORM)** - Designated by Executive Order 12744, 21 January 1991, covering the Persian Gulf; Red Sea; Gulf of Oman; Gulf of Aden; that portion of the Arabian Sea that lies north of 10 degrees north latitude and west of 68 degrees east longitude; and the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates.

2) **Bosnia, Herzegovina, Croatia, and Macedonia QHDA (OPERATION JOINT FORGE)** - Legislatively designated by Public Law 104-117 in 1996.

3) **Federal Republic of Yugoslavia (Serbia/Montenegro) and Albania CZ (OPERATION ALLIED FORCE)** - Designated by Executive Order 13119, 13 April 1999, covering the Federal Republic of Yugoslavia (Serbia/Montenegro), Albania, the Adriatic Sea, and the Ionian Sea north of the 39th parallel.

4) **Federal Republic of Yugoslavia (Serbia/Montenegro) and Albania QHDA (OPERATION ALLIED FORCE)** - Legislatively designated by Public Law 106-21, with an effective date of 24 March 1999, covering the Federal Republic of Yugoslavia (Serbia/Montenegro), Albania, the Adriatic Sea, and the Ionian Sea north of the 39th parallel. **This QHDA provides the same tax benefits as the CZ for the same area described immediately above with one notable exception** - members performing services outside the QHDA but still a part of OPERATION ALLIED FORCE qualify for suspension of time to file returns and take other actions pertaining to income taxes during periods in which they are not paid hostile fire pay or imminent danger pay provided the services occurred outside the United States and while deployed away from the member's permanent duty station.

5) **Afghanistan CZ (OPERATION ENDURING FREEDOM)** - Designated by Executive Order 13239, dated 14 December 2001, covering the following areas:

- (a) Afghanistan, Pakistan, Tajikistan, and Jordan (effective 19 September 2001);
- (b) Kyrgyzstan and Uzbekistan (effective 1 October 2001 because personnel deployed to these locations were not eligible for imminent danger pay in September 2001);
- (c) Personnel deployed to Incirlik Air Base, Turkey, in support of OPERATION ENDURING FREEDOM (effective 21 September 2001);

(d) Yemen (effective 10 April 2002);

(e) **Recent Addition:** On 31 October 2002, all military personnel deployed to the Philippines in conjunction with OPERATION ENDURING FREEDOM became eligible for combat zone income exclusion and tax return filing extension benefits due to their service in direct support of military operations in the Afghanistan CZ with an effective date of 9 January 2002; and

(f) **Recent Addition:** On 21 November 2002, all military personnel in Djibouti became eligible for combat zone income exclusion and tax return filing extension benefits due to their service in direct support of military operations in Afghanistan with an effective date of 1 July 2002.

As the recent additions indicate, this list is subject to change. JACA provides updates as they occur through TJAG On-Line News and direct e-mail messages to base tax program managers. Legal personnel advising members on this subject should ensure they are aware of the current CZ and QHDA and the rules applicable to them. Questions may be directed to the Tax Program Coordinator at JACA (DSN 227-0413 or email thomas.farmer@pentagon.af.mil).

Important - Although direct support of operations in a CZ or QHDA requires the member receive hostile fire or imminent danger pay for the service, merely receiving hostile fire or imminent danger pay does not qualify a member for CZ or QHDA benefits. For example, personnel assigned in Korea or in central or South America may receive imminent danger pay. However, neither of those areas qualifies for CZ/QHDA benefits. To gain the income exclusion and tax filing delay benefits, the member must serve in a designated CZ or QHDA or in direct support thereof while receiving hostile fire or imminent danger pay.

SUMMARY OF STATE TAXATION IMPLICATIONS OF CZ/QHDA DESIGNATIONS

The rules discussed below apply as of 10 January 2003. Obviously, they are subject to change. Legal personnel advising members on this subject should confirm the rules in effect at the time they are providing the advice. To confirm: (1) contact the state revenue or taxation department (the Federation of Tax Administrators employs a US map to link to these offices at <http://www.taxadmin.org/fta/link/default.html>); or (2) contact a legal assistance attorney assigned to an installation in the state in question; or (3) contact JACA (DSN 227-0413 or email thomas.farmer@pentagon.af.mil).

Important: When military taxpayers file their state income tax returns, if required, they should indicate "COMBAT ZONE" at the top of the first page of the return if they have taken advantage of an authorized extension to the filing deadline due to qualifying combat zone or qualified hazardous area service. They should make a similar indication in other tax actions in which they have taken advantage of an extension for this reason.

Alabama - Compensation paid to service members in a CZ designated by Executive Order is not subject to state income taxation (Ala. Code §40-18-3 (2002)). The exclusion applies equally to all ranks. Personnel serving in a CZ are granted a 180-day filing extension following the end of their service in the area. The period of service extends to any continuous hospitalization for those injured as a result of service in the CZ, provided the hospitalization does not exceed 5 years. These extensions apply to a member's spouse as well. Members serving in Bosnia, Croatia, Herzegovina, and Macedonia are granted an automatic filing extension of 180 days following termination of service in this QHDA.

Alaska - No state individual income tax.

Arizona (Community Property State) - To the extent military pay earned while serving in a designated CZ is exempt from taxation under federal law, it is also exempt under Arizona law (Ariz. Rev. Stat. §43-1022(19)(1999)). Unlike federal law, the Arizona statute provides that all of an officer's pay earned in a designated CZ is exempt from state taxation. Members are not required to file Arizona tax returns until 180 days after they leave the CZ. Applicable penalties and interest run from the 181st day until the tax due is paid. The extension also applies to the member's spouse, providing a joint Arizona income tax return is filed. Members serving outside the US as a result of combat zone activities, but not inside the CZ, are required to file Arizona tax returns within 30 days of their return to the US, or, significantly, by the date of the applicable federal extension, **whichever is later**.

The state Department of Revenue Web site, in the "Frequently Asked Questions" section (<http://www.revenue.state.az.us/faqs.htm>) raises the question of acceptance of a federal power of attorney. If difficulties are encountered, taxpayers should use the IRS Form 2848 (discussed above with links to the form and instructions) with the following additions: the phrase "and Arizona Department of Revenue" after "Internal Revenue Service" at line 2 and, if used, line 8;

and the phrase "Arizona individual income tax," with the Arizona form numbers to be filed, at line 3.

Arkansas - Gross income does not include compensation received while on active duty in a CZ or during hospitalization resulting from service in a CZ to the same extent as federal law (Ark. Tax.Reg. §1.26-51-306(a)(4)(1999)). Thus, the federal cap on the exclusion for commissioned officers applies to Arkansas income taxation as well. Though Arkansas does not have a specific statute or regulation pertaining to filing extensions for CZ service, generally the state grants an extension corresponding to the federal extension (Ark. Code Ann. 26-51-807(a)(2)(2002)). Arkansas did grant an extension of time for filing income taxes for members in Bosnia for 180 days after the member's "release from active duty" (or departure from the CZ).

California (Community Property State) - In general, California follows federal tax law regarding exclusion of income earned in a CZ or QHDA (Cal. Rev. & Tax. Code §17142.5 (2002)). The state also follows the federal combat zone tax provisions relating to extensions of time for filing the return and other specified tax acts (Cal. Rev. & Tax. Code §18571 (2002)).

Colorado - Because income excluded for federal income tax purposes is also excluded for Colorado income tax purposes, military pay received while serving in a combat zone is also excluded from income in Colorado (Colo. Rev. Stat. Ann. §39-22-104(1)(2002)). Colorado follows the income tax-filing guidelines set by the IRS regarding service members. State law authorizes service members serving in a combat zone or in support of a combat zone a grace period of 180 days after such service for filing returns and paying their current and previous years taxes (Colo. Rev. Stat. Ann. §39-22-610(2002)). Interest and penalties are abated during this period. Colorado provides general information for military taxpayers at <http://www.revenue.state.co.us/fyi/html/income21.html>.

Connecticut - To the extent that military pay earned while serving in a designated combat zone is exempt from taxation under federal law, it also is exempt under Connecticut law (<http://www.drs.state.ct.us/news/1999/23apr99.htm>). The Connecticut income tax return of any individual in the U.S. armed forces serving in a combat zone or injured and hospitalized while serving in a combat zone is due 180 days after returning. During the period of delay penalties and interest are not charged. Combat zone tax provisions apply to service members in support of combat zones and qualified hazardous duty areas designated by Congress. Therefore, service members serving in Bosnia and Herzegovina, Croatia or Macedonia, are eligible for the combat zone tax provisions and extensions. Filing extensions are addressed by Conn. Gen. Stat. Ann. §12-724 (2001). Connecticut provides information for military taxpayers at <http://www.drs.state.ct.us/pubs/IP's/2002/ip02-22.htm>.

Delaware - Delaware follows the federal income tax rules. Service members in combat zones may exclude the same amount of income as under federal law. Generally, the same extensions for filing tax returns and handling tax actions apply as under federal law. The applicable statutory provisions are Del. Code Ann. Title 30, §§376, 529, and 1171 (2002).

District Of Columbia - To the extent that military pay earned while serving in a designated combat zone is exempt from taxation under federal law, it also is exempt under District of Columbia law (D.C. Code Ann. 47-1803.2). The same extensions for tax filing and actions apply as under federal law.

Florida - Florida income tax is limited in its application to corporations and other artificial entities. The tax does not extend to "natural persons." Income tax does not apply to individual residents of Florida and state income tax is not withheld.

Florida residents are subject to an "intangible personal property tax." It applies to stocks and mutual funds as well as bonds issued by states other than Florida. Cash, bank accounts, CDs, annuities, IRAs, and accounts receivable not secured by real estate are exempt. The tax rate is 0.1% of the assessed value of the taxable assets on 1 January of the current year. Personal exemptions apply - \$20,000 of assets subject to the tax for single filers (\$20 of tax) and \$40,000 of assets subject to the tax for joint filers (\$40 of tax).

Georgia - Georgia follows the federal rules on income. Members who serve in a combat zone may exclude the same amount of income as under federal law (Ga. Code Ann. §48-7-27 (2002)). The same extensions for tax filing and tax actions apply in Georgia as under federal law (Ga. Code Ann. §48-7-36 (2002)). Interest, penalties, and fees are not imposed during the extension period.

Georgia announced the application of the federal income exclusion and deadline extension rules for qualifying combat service for operations in Afghanistan. Additionally, the state allows military personnel serving outside the continental United States an automatic filing extension until 6 months after the return to the continental United States. See this announcement at: <http://www2.state.ga.us/departments/dor/inctax/combatexclusion.html>.

Hawaii - Hawaii follows the Internal Revenue Code in excluding from gross income the military pay earned while serving in a combat zone (Haw. Rev. Stat. §§235-2.3, 235-2.5, and 235-3 (2002)). The same period of extension is allowed as under the federal law. The Hawaii provisions apply to personnel in a combat zone or in support of a combat zone. (Haw. Rev. Stat. §231-15.8 (2002)). The service member will not be charged penalties or interest for a late return filed or tax payments made during the extension period.

Idaho (Community Property State) - Idaho follows the federal Internal Revenue Code for purposes of determining taxable income, with some additional adjustment items unique to the state (Idaho Code §§63-3002 and 63-3011B (2002)). Thus, income excluded from federal taxable income due to qualifying CZ or QHDA service is also excluded by Idaho. Pursuant to Idaho Code §63-3033(d) (2002), the state follows the federal practice on the extension of filing deadlines for qualifying combat zone service, citing to 26 USC §7508, the base federal statute on the subject. Members are thus entitled to the same filing extensions permitted under federal law.

The deadline extension applies to the spouse of a member who has provided qualifying CZ/QHDA service.

Illinois - A subtraction (deduction) is allowed from state base income of any sum which is paid to a resident by reason of being on active duty in the armed forces (including service members missing in action or prisoner of war) (35 Ill. Comp. Stat. Ann. §5/203(a)(2)(E) (2002)). In addition, Illinois automatically grants an “exclusion” benefit because the state income tax computation of taxable income begins with the federal adjusted gross income (35 Ill. Comp. Stat. Ann. §5/203(a)(1) (2002)). A member serving in a combat zone and subject to a filing extension in accordance with a Presidential Executive Order incurs no interest or penalty for the applicable tax year (35 Ill. Comp. Stat. Ann. §5/602(b) (2002)). Thus, members get the benefits of the federal filing extension applicable for qualifying combat zone service.

Indiana - Military pay earned while on active duty in a combat zone is excluded from income to the same degree as under federal law. Indiana follows federal law since state taxable income is based on the federal adjusted gross income, less income exempt from taxation by the federal statutes (Ind. Code Ann. §6-3-3.5 (2002)). Returns are timely filed within 210 days of the date the service member leaves the combat zone. Interest and penalties that accrue on past liabilities owed by Indiana residents who serve in a combat zone are forgiven for the period of the extension (Ind. Code Ann. §6-8.1-6-1 (2002)).

Iowa - Iowa defines “net taxable income” as the taxpayer’s adjusted gross income under the Internal Revenue Code (Iowa Code Ann. §422.7 (2002)). Income excluded under federal law is also excluded for Iowa income tax purposes. Therefore, combat zone pay is excluded on the Iowa return because it is also excluded for federal income taxation purposes. Specific exclusion provisions remain for National Guard members and reservists performing active service pursuant to orders related to the “Persian Gulf Conflict” and “peacekeeping in Bosnia-Herzegovina” (Iowa Code Ann. §422.7(24) and (25) (2002)). Iowa applies the federal rules for extensions for combat zones, qualified hazardous duty areas, and troops in direct support (Iowa Code Ann. §422.21 (2002)). Members are given an additional 180 days after leaving the combat zone or qualified hazardous duty area or other areas where persons were in support of the troops in the hazardous area to file state tax returns.

Iowa information for military taxpayers: <http://www.iowaccess.org/tax/educate/78583.html>

Kansas - Kansas defines its adjusted gross income as the taxpayer’s federal adjusted gross income, with certain specified additions not relevant to this discussion (Kan. Stat. Ann. §79-32, 117 (2001)). Therefore, pay excluded from income for federal purposes is also excluded for Kansas purposes. The state follows the federal rules for extensions for combat zones, qualified hazardous duty areas, and troops in direct support. (Kan. Stat. Ann. §79-3221). Service members will be given an additional time period for filing state returns of 180 days after leaving the combat zone, qualified hazardous duty area or other areas where persons were in support of the troops in the hazardous area. Kansas does not assess penalties or interest during the period of

extension. The member's spouse benefits from the extension provision as well.

Kentucky - Any income earned in a combat zone that is exempt for federal tax purposes is also exempt for Kentucky tax purposes. Kentucky state tax is based upon federal adjusted gross income (Ky. Rev. Stat. §141.010 (2002)). The Kentucky Department of Revenue Web site affirms Kentucky follows federal rules on exclusions of income (<http://revenue.state.ky.us/military.htm>). Service members in a combat zone who are required to file a state return and pay income taxes to Kentucky are not required to file the return or pay any taxes owed until 12 months after leaving the combat zone or the deployment in direct support of combat zone operations (Ky. Rev. Stat. §141.215 (2002)). A penalty is not assessed during the period of extension.

Louisiana (Community Property State) - Calculation of Louisiana income tax starts with federal adjusted gross income. Therefore, military compensation earned while serving in a combat zone excluded from federal income is also excluded from military income (La. Rev. Stat. Ann. §47:293(1) (2002)). Louisiana provided tax relief to the full extent of such relief under federal law to members serving in the Persian Gulf area and Bosnia through a specific grant of authority to the responsible state secretary (La. Rev. Stat. Ann. §§47:292.1 and 47:292.2 (2002)). Beyond this specific legislation, generally an extension of time to file the federal return automatically extends the time to file a Louisiana return (La. Rev. Stat. Ann. §47:103(D) (2002)). As a result, the combat zone filing extensions under federal law operate to extend the filing time in Louisiana as well.

Maine - With some modifications for state residents not relevant to this discussion, Maine uses federal adjusted gross income for determining state income tax liability (Me. Rev. Stat. Ann., Title 36, §§5102(1-C) and 5121 (2002)). Therefore, federal combat zone exclusions apply to Maine's income taxation. As a general rule, the state income tax return must be filed on or before the due date for the federal return, without regard to whether an extension for filing the federal return applies (Me. Rev. Stat. Ann., Title 36, §5227 (2002)). However, the state tax assessor can grant a reasonable extension of time to file (Me. Rev. Stat. Ann., Title 36, §5231 (2002)) and has specifically done so for participants in OPERATION ALLIED FORCE as well as those serving in, or in direct support of, operations in Afghanistan. For the latter, please note the Department's announcement at <http://www.state.me.us/revenue/incomeestate/combattax.pdf>. Consistent with that announcement, Maine has adopted the federal income exclusion and filing deadline extension for members serving in, or in direct support of, operations in Afghanistan, as it did for OPERATION ALLIED FORCE. All return examinations and collections are suspended during the extension period. The governor made a similar announcement for personnel serving in peacekeeping operations in Bosnia.

Maryland - Since state income tax is based upon the federal adjusted gross income, any income earned for qualifying combat zone service exempt for federal purposes is also exempt for Maryland purposes (Md. Code Ann. §10-203 (2002)). Besides the combat zone exclusion, military income earned while serving outside the United States is subtracted from the federal

adjusted gross income in calculating income subject to Maryland state taxation (up to \$15,000 annually), Any amount above \$15,000 reduces this exclusion dollar for dollar. At \$30,000, the modification to adjusted gross income for Maryland purposes is zero (Md. Code Ann. §10-207(p) (2002)). The state grants extensions to file the income tax return or declaration of estimated tax, a refund claim, and any appeals authorized under state law during the period referred to in section 7508 of the Internal Revenue Code (Md. Code Ann. §2-111 (2002)). Hence, the state adopts the federal filing extension rules.

Massachusetts - The state adopted the federal Internal Revenue Code on 1 January 1998 (Mass. Gen. Laws Ann. Ch. 62, §1(c) (2002)). With modifications not relevant to this discussion, Massachusetts defines gross income consistently with the definition of gross income under the federal Code (Mass. Gen. Laws Ann. Ch. 62 §2(a) (2002)). Thus, the state excludes income earned in a combat zone to the same extent as federal tax law. Massachusetts adopts the federal rules for extension of the filing deadline (Mass. Gen. Laws Ann. Ch. 62, §81 (2002)). Access the state Department of Revenue announcement of extension of these benefits to members serving in, or in direct support of, operations in the Afghanistan combat zone at http://www.dor.state.ma.us/rul_reg/tir/tir02-4.htm and the former Yugoslavia at http://www.dor.state.ma.us/rul_reg/tir/tir99_6.htm. The state also grants tax forgiveness consistently with the federal rules for persons who are killed during qualifying combat zone service, or die from wounds, injury or illness incurred during such service, and for persons killed in terrorist action (Mass. Gen. Laws Ann. Ch. 62, §25 (2002)).

Michigan - Members who are legal residents of Michigan but maintain an abode elsewhere are required to file a Michigan income tax return. The state defines taxable income as the federally defined adjusted gross income, with certain specified modifications (Mich. Comp. Laws Ann. §206.30(1) (2002)). One modification is the deduction of all compensation included in federal adjusted gross income for service in the armed forces (Mich. Comp. Laws Ann. §206.30(1)(e) (2002)). Thus, all military pay is non-taxable. Still, members who are Michigan residents must file and deduct the pay in determining any tax liability to the state. By a Revenue Administration Bulletin in 1991, Michigan applied the federal provisions extending deadlines for filing returns and other tax actions to personnel serving in OPERATION DESERT STORM. Although neither Michigan statutes nor a subsequent revenue bulletin addresses this subject, the Michigan Income Taxation Division confirmed it follows federal deadline extension practice in a telephone conference on 9 January 2003.

Minnesota - "Net income" subject to tax in Minnesota means the federal taxable income (Minn. Stat. Ann. §290.01, Subd. 19 (2002)). Therefore, the state follows federal rules in exempting income earned for service in, or in direct support of operations in, a designated combat zone or qualified hazardous duty area. Under Minn. Stat. Ann. §289.39A, Subd. 1(a) (2002) Minnesota follows federal law (Internal Revenue Code §7508) on extensions of filing deadlines and other tax actions. The state also suspends the assessment and collection of interest and penalties during the extension period (Minn. Stat. Ann. §289.39A, Subd. 2 (2002)). Reserve and National Guard members called to active duty whose service is in the United States gain an automatic 6-

month extension of the filing deadline. Those called to active duty who serve overseas receive an automatic extension for that period of initial service plus 6 months thereafter. These provisions do not act to reduce the extensions for service in combat zones or qualified hazardous duty areas (Minn. Stat. Ann. §289.39A, Subd. 1(b) (2002)). All of these extension provisions apply to the spouse of the member if a joint return is filed (Minn. Stat. Ann. §289.39A, Subd. 1(d) (2002)). For members who die while in service, including members who die while serving in UN forces, no income tax is owed in the year of death. Income tax remaining unpaid from prior years is abated. If state income tax so forgiven had already been paid or collected, the decedent's representative may apply for a refund within 7 years of the date the tax was paid or collected (Minn. Stat. Ann. §289.39A, Subd. 6 (2002)).

Mississippi - Enlisted members and warrant officers may exclude from income for Mississippi tax purposes all pay received for any month they serve in a designated combat zone or are hospitalized from wounds, injuries, or illness incurred in such an area. Commissioned officers may exclude up to \$500 per month of such income (Miss. Code Ann. §27-7-15(4)(n) (2002)). All amounts paid to all members, regardless of rank, as hazardous duty pay are excluded from income (Miss. Code Ann. §27-7-15(4)(j) (2002)). The state also excludes from income all compensation paid to a service member or civilian employee who are missing in action or interned or detained in a foreign country against his or her will or captured by a hostile force against his or her will (Miss. Code Ann. §27-7-15(5) (2002)). The Mississippi State Tax Commissioner has the discretion to automatically recognize extensions of time authorized and granted by the IRS for filing annual income tax returns (Miss. Code Ann. §27-7-50 (2002)).

Missouri - With modifications not relevant to this discussion, Missouri defines adjusted gross income as the taxpayer's federal adjusted gross income (Mo. Ann. Stat. §143.121 (2001)). Therefore, members' income excluded due to qualifying combat zone or qualified hazardous duty area service is also excluded for Missouri income tax purposes. The Missouri Department of Revenue has announced the state has adopted the federal combat zone income tax exclusions (<http://www.dor.state.mo.us/tax/personal/#combat>).

The state extends the filing deadline and other tax actions for the period of service in a combat zone, plus any period of hospitalization attributable to such service, plus the next 180 days (Mo. Ann. Stat. §143.991(1) (2001)). Pursuant to Mo. Ann. Stat. §49.150.1(8) (2001), the same extension is applied to the payment of any liability or indebtedness for income tax and taxes on real and personal property for active duty, Reserve, and National Guard members in a military conflict for which reserve components have been activated. The same provision relieves such persons of various other state law provisions.

A taxpayer who dies while serving in a combat zone, or from wounds, injury, or disease sustained in such an area, no income tax shall be imposed during the year of death or for any prior year ending on or after the first day the member served in a combat zone (Mo. Ann. Stat. §143.991(2) (2001)).

Montana - The salaries Montana residents receive while serving on active duty in the regular armed forces and who entered active duty in Montana are exempt from state income tax (Mont. Code Ann. §15-30-116(2) (2002)). Additionally, the state defines “gross income” as the taxpayer’s gross income for federal income tax purposes (Mont. Code. Ann. §15-30-101(9) (2002)). The combined effect of these provisions is to exclude income earned for qualifying combat zone service from state taxation.

Montana has not adopted any provision extending filing deadlines for combat zone service. Even if the income exemption provisions above leave a resident with no taxable income for state income tax purposes, Montana does require its residents to file. They can request an extension due to deployment. However, the extension form is not available on line, is a “carbon copy” type form, and requires a stamp to certify. In the alternative, the state Department of Revenue advises a deploying Montana resident, with no income beyond the exempt military income, should file the state return, reporting all military income is exempt. In the event the member has income from non-military sources subject to state income taxation, he or she will have to file for an extension. Access information from the Montana Department of Revenue at <http://www.state.mt.us/revenue/css/default.asp>.

The state does apply its “Soldiers’ and Sailors’ Relief” statute to any income tax, whether coming due prior to or during military service. The collection of state income tax is deferred for a period extending not more than 6 months after the termination of military service if the member’s ability to pay is materially affected by that service. During the deferral period, no interest or penalty will accrue for nonpayment (Mont. Code. Ann. §15-30-313 (2002)). The same “Relief” act also allows application to state courts for a stay of enforcement proceedings for any tax liability or obligation incurred prior to entering the military for the period of service plus 6 months thereafter (Mont. Code. Ann. §15-30-314 (2002)).

Nebraska - Since the state defines “adjusted gross income” as the member’s federal adjusted gross income (Neb. Rev. Stat. §77-2714.01(1) (2002)), Nebraska follows the federal rules regarding the exclusion from income of compensation earned in a combat zone or qualified hazardous duty area. Also consistent with the federal approach, the state extends the deadlines for filing returns and other tax actions for the period of service plus any period of continuous hospitalization outside Nebraska attributable to such service plus an additional 180 days (Neb. Rev. Stat. §77-27,123(1) (2002)).

For members who die while serving in a combat zone or as a result of wounds, disease, or injury incurred while so serving, Nebraska does not impose income tax for the taxable year in the year of death or for any prior taxable year ending on or after the first day the decedent served in a combat zone.

Nevada (Community Property State) - Per its Constitution, Nevada imposes no personal income tax.

New Hampshire - Any person serving as a full time member of the United States armed services is exempt from the payment of the residence tax (N.H. Rev. Stat. Ann. §72.3-a (2002)). Thus, New Hampshire does not tax military compensation. The state also exempts members from its commuter income tax (N.H. Rev. Stat. Ann. §72.3-a (2002)). A special provision applies to surviving spouses of members who are killed or die in wars, armed conflicts, conflicts or combat zones. In such cases, the surviving spouses receive a credit for taxes due on their real and personal property (N.H. Rev. Stat. Ann. §72.29-a (2002)).

New Jersey - While New Jersey does not have a specific statutory or administrative provision relating to exclusion of income earned in a combat zone, the definition of “resident” and “nonresident” provides some state income tax relief. Residents are taxed on their entire gross income after deductions and personal exemptions. Nonresidents are taxed on their gross income only from New Jersey sources (N.J. Stat. Ann. §54A:2-1.1 (2002)).

Members who are domiciled (defined as the place the member regards as his or her permanent home) in New Jersey, but who meet all of the following conditions for the entire year, are considered nonresidents for state income tax purposes: (1) did not maintain a permanent home in New Jersey; and (2) maintained a permanent home outside of New Jersey; and (3) did not spend more than 30 days in New Jersey during the taxable year. A resident is also defined as an individual who is domiciled in New Jersey, or if not domiciled in New Jersey, has a permanent place of abode in New Jersey and spends more than 183 days of the tax year in the state (however, service members stationed in New Jersey, where New Jersey is not their domicile, are not residents under this definition) (N.J. Stat. Ann. 54:8A-3 (2002)). If a domiciliary of New Jersey meets the three conditions for nonresident status, the service member should file a Form DD-2058-1, State Income Tax Exemption Test Certificate, with their finance officer to stop New Jersey income tax from being withheld from military pay.

Compensation paid to service members who reside in New Jersey but are not domiciled there is excludable from income (N.J. Stat. Ann. 54A:6-7 (2002)).

Service members and civilians providing support to the armed forces who are serving in a designated combat zone, qualified hazardous duty area, or were hospitalized outside the United States as a result of an injury received while serving in these areas are granted an extension of time for filing individual income tax returns, paying tax, and completing other tax actions for the period of combat service or hospitalization resulting therefrom, plus 180 days (N.J. Stat. Ann. §54A:9-16(a) (2002)). The extensions of time for performing tax actions closely mirror the federal law. No penalty, interest, or addition to tax will be assessed for late filing or late payment of the tax pursuant to this section.

New Jersey also provides for specific relief when members die in a combat zone or qualified hazardous duty area or as a result of wounds, disease or injury incurred while so serving. State income tax will not apply with respect to the taxable year of death any prior taxable year ending on or after the first day served in a combat zone. Nor will a tax return be required in behalf of

such person or such person's estate for the year of death. The tax which is unpaid at the date of death, including interest, additions to tax and penalties, if any, shall not be assessed. Any assessment already made shall be abated and, if collected, shall be refunded, to the estate if a representative has been appointed or, if not, to the surviving spouse (N.J. Stat. Ann. 54A:9-16(c) (2002)).

Finally, New Jersey has extended the filing deadline for income tax returns of victims of the 11 September 2001 terrorist attacks to 15 April 2003 (http://www.state.nj.us/treasury/taxation/index.html?9_11ext.htm~mainFrame). As of December 2002, bills remained pending in the New Jersey legislature to forgive the income tax obligations for 2000 and 2001 for persons killed in the 11 September attacks.

New Mexico (Community Property State) - There is no provision in New Mexico law expressly exempting a service member's combat zone compensation from taxation or extending tax filing deadlines. However, New Mexico adjusted gross income generally equals federal adjusted gross income (N.M. Stat. Ann. §7-2-2 (2002)). As such, combat zone pay is excluded from New Mexico taxation to the same extent as federal law. New Mexico allows for an extension of time to file state income taxes when an extension has been granted under the Internal Revenue Code (N.M. Stat. Ann. §7-1-13(E) (2002)). The member should attach to the return when filed a copy of orders or other notice indicating his or her service in a designated combat zone or qualified hazardous duty area. Automatic extensions (without giving notice to the state) are allowed for no more than four months from the date upon which payment of New Mexico income tax or the filing of any New Mexico income tax return is required. For good cause, the state treasury secretary, or delegate, may extend for a taxpayer or class of taxpayers for a period of up to 12 months the date on which the state income tax return must be filed and any tax owed paid (N.M. Stat. Ann. §7-1-13(E) (2002)). For any income tax imposed upon a service member serving in a combat zone under orders of the President of the United States, interest accrues beginning the day after any applicable extension (N.M. Stat. Ann. §7-1-67(A)(1) (2002)).

New York - Combat zone pay is exempt from New York taxation to the same extent as it is from federal taxation because state adjusted gross income is defined as federal adjusted gross income (N.Y. Tax Law §612(a) (2002)).

New York grants members serving in a combat zone extensions of time for handling tax matters and pays interest on overpayments of tax from the original due date similar to federal law. The extension includes the period of service in the combat zone and any period of continuous hospitalization inside or outside New York as a result of such service plus 180 days as well as any days the member had left to file when he or she entered the combat zone. (N.Y. Tax Law §696(a) (2002)). Spouses of those qualifying under these provisions are also entitled to the relief (N.Y. Tax Law §696(g) (2002)).

If a member of the armed forces or support personnel dies as a result of serving in a combat zone, no New York state personal income tax or gift tax will be imposed for any tax year during which

the decedent served in the area. Further, the New York estate tax will be forgiven. Any taxes collected shall be refunded to the legal representative of the decedent or, if none has been

appointed, to the surviving spouse (N.Y. Tax Law §696(d) (2002)). For victims of the 11 September 2001 terrorist attacks, the state will not apply any tax for the year of death as well as the year before the wounds or injury ultimately causing death occurred (N.Y. Tax Law §696(h) (2002)).

Access the New York State Tax Guide for Military Personnel at http://www.tax.state.ny.us/pdf/publications/income/pub361_1102.pdf.

North Carolina - If you are serving in the United States Armed Forces and your domicile (legal residence) is North Carolina, you must pay North Carolina income tax and North Carolina income tax should be withheld from your military pay, regardless of where you are stationed.

Combat zone pay is exempt from North Carolina taxation to the same extent as it is from federal taxation as state gross income is defined as federal gross income (N.C. Gen. Stat. §§ 105-134.1 (1), (5), 105-228.90(b)(1a), and 105.134.5 (2002)). Service members are granted an extension of time to file a return or take other tax actions concerning North Carolina tax for any period during which the combat zone provisions apply. Interest and penalties are not assessed against a member for any period that is attributable to a combat zone in determining the tax liability for federal tax purposes (N.C. Gen. Stat § 105-249.2 (2002)). North Carolina applies the same rules regarding income taxes of a service member upon death in a combat zone as federal law (N.C. Gen. Stat. § 105-158 (2002)). Find North Carolina Department of Revenue, Active Military, Web site at <http://www.dor.state.nc.us/taxes/individual/military.html>.

North Dakota - All income excluded for federal income tax purposes is similarly excluded for North Dakota income tax purposes. North Dakota computes state income based on federal adjusted gross income and federal taxable income (N.D. Cent. Code §57-38-01 (12) (2002)). Therefore, since combat pay is excluded for federal purposes, it will be excluded for state taxation. A service member serving outside of the United States may defer the filing of an income tax return and the payment of the income tax until the federal income tax return is required to be filed. No penalty or interest will apply during the extension period (N.D. Cent. Code §57-38-01(5)(2002)). Find North Dakota Income Tax Guideline for Military Personnel at http://www.state.nd.us/taxdpt/indincome/pubs/guide/gl_28243.pdf.

Ohio - Military pay and allowances received by service members that are not included in gross income under federal law are not included in Ohio adjusted gross income (ORC Ann. §§5747.01 and 5747.024 (Anderson 2002)). However, if you are a resident, Ohio taxes your federal adjusted gross income including your military pay even if you spent no time in Ohio during the tax year. Ohio has exemptions for members who die in a combat zone (ORC Ann. §5747.023 (Anderson 2002)). Ohio statutes, administrative codes, and policy statements do not address the issue of extensions of time to file a state income tax return for service members in a combat zone.

The Ohio Department of Taxation Web site states that if you qualify for, and obtain a federal

extension of time to file, then you automatically have the same extension of time for filing your Ohio return (http://www.state.oh.us/tax/individual_taxes_personal_income_ext.html). However, you must attach to your Ohio return either a copy of the IRS automatic extension (IRS Form 4868) if requested by paper document or a note indicating you requested the extension by phone and your confirmation number. Personnel deployed to a combat zone or qualified hazardous duty area, in support of operation in these locations, should cite the deployment and operation in the note. If you have requested even more time to file beyond the automatic extension, you must attach the IRS notice granting you further time to file. Caution: An extension of time to file does not give you an extension of time to pay. Even if you qualify for, and elect to take a federal and Ohio extension of time to file your tax return, you must pay the balance of your Ohio income tax by April 15, 2003. When the service member files the Ohio return, he should write the combat zone designation on the top of the return and the date of exit from the combat zone.

Oklahoma - Income excluded for federal income tax purposes is similarly excluded for Oklahoma income tax purposes. The terms “taxable income,” “adjusted gross income,” and “Oklahoma adjusted gross income” in state law are the same as defined under federal law in the federal Internal Revenue Code (68 Okl. St. §2353 (10 to 13) (2003)). Therefore, as combat pay is excluded for federal purposes, it is excluded for state taxation. Also, compensation received from service member, and the income of the spouse or dependent, is deducted from taxable income during the time in which the person is detained by the enemy in a conflict, is a prisoner of war, or if until declared deceased by the Armed Forces missing in action and not deceased (68 Okl. St. §2358.1 (2003)).

Whenever the filing of a timely income tax return by a service member is made impracticable or impossible of accomplishment by reason of absence from the state of Oklahoma while on active duty, being outside the United States, or being confined in a hospital within the United States for treatment of wounds, injuries or disease, the time for filing a return and paying an income tax is extended. Filing an extension precludes incurring liability for interest or penalties to the fifteenth day of the third month following the month in which the member does one of the following: returns to the United States; returns to Oklahoma if the extension is granted for reason of being absent from the state; or is discharged from a hospital if the extension is granted due to the member's confinement for treatment of wounds, injuries, or disease sustained while serving in the combat zone. If an executor, administrator, or conservator of the estate of a service member is appointed, the time for filing a return and paying taxes is extended until the fifteenth day of the third month following the month of whichever event occurs the earliest.

The tax commission has the discretion to grant any service member an extension of time for filing of income tax returns and payment of income tax without incurring liabilities for interest or penalties. The extension may be granted for good cause and for a period in excess of six months (68 Okl. St. §2358(D)(5) (2003)).

Oregon - If a member from Oregon does not have a permanent residence in the state for himself or his family for any part of the tax year, maintains a permanent residence outside of Oregon during the entire tax year, and spends less than 31 days in Oregon during the tax year, then he is

considered a nonresident for tax purposes, not subject to Oregon taxation (ORS §316.127(7) (2001)). “Taxable income” for purposes of Oregon taxation is the same as taxable income defined by federal law, with some additions, subtractions, and adjustments (ORS §316.012 (2001)).

Compensation received for active service in the “Persian Gulf Desert Shield area” is excluded from gross income. (ORS §789 (2001)). Generally, Oregon allows an extension of time for filing tax returns equal in length to the extension periods allowed under the Internal Revenue Code and its regulations. The time for performing tax acts and filing returns are generally postponed by reason of service in a combat zone to the same extent as the federal law (ORS §314.870 (2001)). Oregon will waive penalty and interest because of late filing and late payment of personal income tax in situations where the IRS does the same for persons who served in a combat zone (ORS §314.870 (2001)). Oregon law also allows for a forgiveness of income tax liability for service members whose death is attributable to their service in a combat zone (ORS §314.870(3) (2001)). Find Oregon Department of Revenue Military Q and A’s at http://www.dor.state.or.us/q_a/military.html.

Pennsylvania - For Pennsylvania local earned income tax purposes, wages or compensation paid to persons on active military service, regardless of whether or not the person is a resident or nonresident individual and regardless of whether or not the service is performed within or outside the Commonwealth, is not taxable (53 P.S. §6913 (2002)).

Any compensation received by a service member serving in a combat zone is not taxable by Pennsylvania (72 P.S. §7301(d)(vii) (2002)). Combat zone extensions in Pennsylvania are similar to federal combat zone extensions and disregard interest, penalties, and additions to tax (72 P.S. §7330 (2002)). Combat zone extensions for local taxation are granted for service members and their spouses until 180 after their return to their residency or after release from a military or veterans' hospital (72 P.S. §4753-1(a)(1) (2002)). Pennsylvania law also allows for a waiver of local income tax liability for service members whose death occurs in a combat zone ((72 P.S. §4753-1(b) (2002)).

Rhode Island - Rhode Island income of a resident individual means adjusted gross income for federal income tax purposes, with some modifications (R.I. Gen. Laws §44-30-12 (2002)). Likewise, the Rhode Island income of a nonresident is based upon the net amount of items of income entering his federal adjusted gross income derived from or connected with Rhode Island sources (R.I. Gen. Laws §44-30-32(d) (2002)). Military compensation paid to a member not domiciled in Rhode Island does not constitute income derived from Rhode Island sources. Rhode Island policy guidance indicates that federal income tax provisions governing armed forces pay while serving in a combat zone or in an area under conditions that qualify for hostile fire pay are applicable for state tax purposes (<http://www.tax.state.ri.us/form/2001/pers/1040.pdf>, page 1). Therefore, pay relating to a combat zone is excluded to the same extent as federal law. An estate of a service member who has been classified as MIA shall be exempt from estate and transfer taxation (R.I. Gen. Laws §44-22-2 (2002)).

Rhode Island statutes and regulations do not specifically deal with combat zone extensions (Regulation PIT 01-10 at <http://www.tax.state.ri.us/regs/regs/pit01-10.htm>). For Bosnia, Rhode Island issued guidance that it would follow the lead of the IRS by granting an automatic extension to service members serving in "OPERATION JOINT ENDEAVOR." Service members serving in Bosnia on or after 15 March 1995 had an automatic extension of time to file their 1995 return until 15 December 1996. The extension ensured that service members would not be assessed either a failure to file or failure to pay penalty (<http://www.tax.state.ri.us/news/vol10no3.htm>). Despite the lack of written authority in Rhode Island for combat zone extensions, the state's Division of Taxation is still applying the same rules as the federal combat zone extension for state taxation purposes.

South Carolina - South Carolina has applied the federal Internal Revenue Code to state tax laws. Adjusted gross income for South Carolina purposes means adjusted gross income for federal income tax purposes (S.C. Code Ann. §12-6-40(A)(1)(b) (2002)). Likewise, taxable income in South Carolina is computed as determined under the federal Internal Revenue Code (S.C. Code Ann. §12-6-560 (2002)). Therefore, to the extent combat pay is excluded for federal purposes, it is excluded for state taxation.

When a taxpayer is not required to make a payment of tax at the time of the extension, and the taxpayer has been granted an extension of time to file a federal income tax return, the taxpayer is not required to apply to the state revenue department for an extension of time to file the South Carolina return (S.C. Code Ann. §12-6-4980 (2002)). In addition to this general rule, military personnel serving in Bosnia, Herzegovina, Croatia, and Macedonia have been granted at least 180 days after the departing these areas to file state tax returns. For members serving in Bosnia, Herzegovina, Croatia, and Macedonia, South Carolina will waive any penalties and interest that accrue because of any extension or suspension of collection activities (<http://www.sctax.org/DOR/Tax+Policy/Revenue%20Procedure/rp96-2.html>). For the OPERATION DESERT STORM combat zone, South Carolina applied all the federal combat zone exclusions and extensions (<http://www.sctax.org/DOR/Tax+Policy/Information%20Letter/il91-18.html>).

South Dakota - South Dakota currently does not have a state individual income tax.

Tennessee - Any person who has a legal domicile in Tennessee or maintains a place of residence in Tennessee for more than six months in the tax year, is subject to the income tax (Tenn. Code Ann. §67-2-101 (2002)). However, this tax does not apply to military personnel legally domiciled in another state. The income a person receives while legally domiciled in Tennessee is subject to the tax. Most income from stocks, bonds, and notes receivable is taxable (Tenn. Code Ann. §67-2-102 (2002)).

Tennessee does provide for an exclusion of interest, penalties, and assessments of tax or liabilities for members during the period of service in a combat zone, or the period of

hospitalization outside the US as a result of injury received or disease incurred while serving in such an area during such time, and the next ninety (90) days thereafter (Tenn. Code Ann. §67-2-114 (2002)). This exclusion includes armed force members participating in OPERATION ENDURING FREEDOM (Tenn. Code Ann. §67-2-112 (2002)). A person claiming this delay must forward proof of deployment and stationing outside the United States and proof of return from deployment. The estate of any such person who is killed in action in such hostilities shall owe no income tax and any liability for any such tax, penalty or interest is forgiven (Tenn. Code Ann. § 67-2-112(b)(4) (2002)). No Tennessee citizen declared a prisoner of war is liable for payment of the tax during the time of such person's capture and imprisonment nor for sixty (60) days upon such person's release from the same, whenever it should occur (Tenn. Code Ann. §67-2-104(d) (2002)).

Applications for Extensions of Time to file must be forwarded by 14 May of the tax-filing season. They may be granted for up to but not exceeding six months. While no penalty will be incurred if taxes are paid before the end of the extension period, interest from the original due date will be assessed.

Texas (Community Property State) - Texas currently has no individual income tax.

Utah - Because Utah's tax system is tied to the federal tax system, combat pay that is exempt from federal income taxation will also be exempt from the state income tax (Utah Code Ann. §59-10-116 (2002)). Income excluded from federal adjusted gross income as combat pay is exempt from withholding. Utah does grant an extension of time to file tax returns for service members in a combat zone that coincides with the federal rules (Utah Admin. Code R865-9I-47A at <http://www.rules.state.ut.us/publicat/code/r865/r865-09i.htm#T38>). The Utah return will be due on the same day as the federal return. Service members that are Utah residents and stationed outside the United States are granted an extension of time to file returns to the fifteenth day of the fourth month after returning to the United States, or their discharge date, whichever is earlier (Utah Code Ann. §59-10-516 (2002) and Utah Admin. Code R865-9I-23C at <http://www.rules.state.ut.us/publicat/code/r865/r865-09i.htm#T21>). No penalty or interest is charged on unpaid tax provided members file their returns and pay any taxes due within the applicable extended time period. The Utah Tax Commission will also suspend audits and collection activities for back taxes owed by service members serving in the combat zone (Utah Tax Bulletin 3-91 at <http://tax.utah.gov/research/bulletins/tb3-91.htm>).

Vermont - Vermont's income tax laws are intended to conform to the federal Internal Revenue Code (32 V.S.A. §5820 (2002)). Adjusted gross income under Vermont tax laws means the federal adjusted gross income (32 V.S.A. §5811 (2001)). Military pay for full-time active duty earned outside of the state is exempt from Vermont taxation while limited amounts of pay of members of the National Guard are exempted from state taxation (32 V.S.A. §5823(a)(2) (2001)). Therefore, based upon the nature of Vermont's individual tax law, as a minimum, members from Vermont would have the same combat zone exclusions as under federal law. Service members in a combat zone, or serving in an area treated by federal law as if it were a

combat zone, are entitled to all the combat zone tax extensions to the same extent as under federal law (32 V.S.A. §5830d (2002)).

Virginia - Generally, Virginia's taxable income of a resident means federal adjusted gross income for the tax year and specifically excludes combat pay for service members as provided by federal law (Va. Code Ann. §58.1-322 (2002)). However, Virginia law was amended in 1998 to provide additional benefits beyond federal law. All military pay and allowances, to the extent included in federal adjusted gross income and not otherwise subtracted, deducted or exempted under other sections of the Virginia tax code, earned by military personnel while serving in a combat zone or qualified hazardous duty area which is treated as a combat zone are exempt from state taxation (Va. Code Ann. §58.1-322(C)(21) (2002)). The practical effect of this new provision is to exclude all officer compensation earned in a combat zone or qualified hazardous duty area from state taxation, as opposed to the more limited exclusion for officers under the federal Internal Revenue Code. Virginia law specifically addresses military service in the former Yugoslavia, excluding all military pay and allowances earned by members for service in any part of the former Yugoslavia, in support of OPERATION JOINT ENDEAVOR as part of the NATO Peace Keeping Force (Va. Code Ann. §58.1-322(C)(18) (2002)).

Generally, an extension of time to file a Virginia tax return is granted to service members outside of the United States to the first day of the seventh month following the close of the taxable year (Va. Code Ann. §58.1-344(D) (2002)). However, Virginia allows members that qualify for the federal combat zone extension an extension for filing income tax returns and paying the tax. The extension is for fifteen days after the date on which the federal period of postponement terminates, if the date is greater than one year from the original due date of the return (Va. Code Ann. § 58.1-344(F)(2) (2002)). This extension has also been specifically applied to service members in any part of the former Yugoslavia in support of OPERATION JOINT ENDEAVOR as part of the NATO Peace Keeping Force (Va. Code Ann. § 58.1-344(G) (2002)).

Virginia indicated that all estimated tax payments, installment payments, and collection activities will be suspended during these extension periods. Interest and penalties will not accrue during the extension period. The basic rules have been applied for service members in the former Yugoslavia as part of OPERATION JOINT ENDEAVOR at (Tax Bulletin, 96-2 at <http://policylibrary.tax.state.va.us/OTP/Policy.nsf/ccd0d2ea93db9ba485256968006a39ed/81c41c5152dcf671852569ad004daeba>). The Commonwealth of Virginia Department of Taxation issued a bulletin in regards to the OPERATION DESERT STORM combat zone. However, service members must make sure to apply the recent tax law changes to the guidance issued for OPERATION DESERT STORM (Tax Bulletin, No. 91-3 at <http://policylibrary.tax.state.va.us/OTP/Policy.nsf/72ecd7668f3940d2852569910070c1d2/1fabbb2f7b387201852569ad004daaac>).

Find Virginia's Military Tax Tips at <http://www.tax.state.va.us/site.cfm?alias=MilitaryTaxTips>.

Washington (Community Property State) - Washington currently does not tax individual income.

West Virginia - West Virginia adjusted gross income of a resident individual means his or her

federal adjusted gross income for the taxable year with some modifications (W. Va. Code §11-21-12 (2002)). As such, military compensation earned in a combat zone or qualified hazardous duty area that is exempt from federal taxation is also exempt from West Virginia income taxation. West Virginia's requirement to withhold taxes from wages does not apply to payments by the United States to service members (W. Va. Code §11-21-71 (2002)). The state adopted a specifically adopted legislation mandating that combat pay received for DESERT SHIELD service exempt from federal income tax is also exempt from West Virginia tax (W. Va. Code §11-21-12b (2002)).

West Virginia allows an automatic extension of time to file a tax return where there is an extension of time for federal income tax purposes, noted on the state's Web site on page 3 at <http://www.state.wv.us/taxrev/uploads/2002resb.PDF>. West Virginia law requires taxes shown due on an annual return to be paid on or before the due date of the return, determined without regard to extensions of time for filing a return. Nevertheless, the tax commissioner may grant a reasonable extension of time for payment of tax or estimated tax (or any installment), or for filing any return, declaration, statement, or other document required pursuant to this article, on such terms and conditions as he or she may require. Except for a taxpayer who is outside the United States, no such extension shall exceed six months (W. Va. Code §11-21-57 (2002)).

For members participating in peacekeeping efforts in Bosnia, Herzegovina, Croatia, and Macedonia the extensions of time to pay the West Virginia personal income tax and to file personal income tax returns granted apply to the current tax period and future periods until revoked or otherwise amended (W. Va. Dept. of Tax and Revenue, Administrative Notice 96-24)). Statutory authority exists for OPERATION DESERT SHIELD, which applies state law very similar to federal combat zone extensions for the Persian Gulf area (W. Va. Code §11-21-61 (2002)). Also, service members who die while serving in a combat zone or as a result of wounds, disease or injury incurred while so serving shall be exempt from taxes for the taxable year of his or her death and for any prior taxable year ending on or after the first day he or she served in a combat zone. W. Va. Code §11-21-62 (2002)).

Wisconsin (Community Property State) - If a Wisconsin resident is serving in the armed forces outside Wisconsin, including overseas, the person is liable for Wisconsin income taxes on the entire annual Wisconsin net taxable income, wherever earned (Wisconsin Taxation of Military Personnel, Pub. 104, p. 1, quest. 4 at <http://www.dor.state.wi.us/pubs/02pb104.pdf>.) They may, however, be eligible for a credit of up to \$200.00. However, Wisconsin adjusted gross income means federal adjusted gross income with some modifications (Wis. Stat. §71.01(13) (2002)). Therefore, compensation for qualifying combat zone or qualified hazardous service that is exempt from federal income taxation is also exempt from Wisconsin personal income taxation.

For purposes of withholding taxes, Wisconsin wages do not include any time which a service member served in a combat zone during an induction period or was hospitalized as a result of wounds, disease or injury incurred while serving in a combat zone (Wis. Stat. §71.63 (2002)). Also, a specific statute affords all enlisted compensation and up to \$500 per month of officer

compensation earned for service performed for OPERATION DESERT SHIELD or OPERATION DESERT STORM is subtracted from gross income under Wisconsin law (Wis. Stat. §71.05(6)(b)(13), (14) (2002)).

Any extension of time allowed under federal law for filing a federal income tax return also applies to Wisconsin income tax returns and in most cases applies to spouses also (Wisc. Pub. 401, Extension of Time, page 2, at <http://www.dor.state.wi.us/pubs/02pb401.pdf>). Taxes that are payable upon the filing of the return do not become delinquent during the period of the extension, but are subject to interest at the rate of 12% per year during the period. However, members will not be charged interest during an extension period while they served in support of OPERATION ENDURING FREEDOM (<http://www.dor.state.wi.us/faqs/extendsn.html>). Find Wisconsin tax Web site for military personnel at <http://www.dor.state.wi.us/faqs/military.html>

Wyoming - Wyoming currently does not have an income tax.