



DEFENSE FINANCE AND ACCOUNTING SERVICE

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MAR 4 2002

DFAS-DFM

MEMORANDUM FOR DIRECTOR, MILITARY PAY OPERATIONS, DEFENSE
FINANCE AND ACCOUNTING SERVICE (DFAS-PM/CL)

SUBJECT: Interim Change to the Department of Defense Financial
Management Regulation (DoDFMR), Volume 7B, Regarding
Taxability of Death Gratuity (DFAS Item K-45)

The attached is Interim Change R 05-02 to Chapter 30 of the
DoDFMR, Volume 7B concerning taxability of death gratuity
payments. This change is effective immediately.

We have evaluated your comments on the proposed change and
included your comments where appropriate. Assignment of the
interim change number is your authority to initiate procedural
modifications to implement this change. Use the attached to
initiate the formal change to the DoDFMR, Volume 7B.

for *Gloria D. Harris*
Jerry S. Hinton
Director for Finance

Attachments:
As stated

cc: DASD (MMP) (Comp)
OUSD(C) (ODCFO) (FP)
ODGC (F)
DFAS-GAM/DE
Service Liaisons
USCG/NOAA/PHS Liaisons
DFAS-PMJE/DE
DFAS-PRR/CL

1. Add the following to the end of paragraph 300201 to read:

See paragraph 300302 for death gratuity taxability.

2. Paragraph 300302, revise to read:

300302. Taxability of Death Gratuity. The amount of death gratuity payments made to survivors of military members who died after August 20, 1996, that is excludable from income, may not exceed \$3,000, regardless of the number of beneficiaries. If there are multiple beneficiaries, the \$3,000 exclusion should proportionately be applied. Report all death gratuity payments separately, using TD Form 1099R. Enter the total amount of the distribution in Box 1. Enter the appropriate taxable amount in Box 2a. For members who died on or before August 20, 1996, the maximum exclusion amount is \$5,000.

3. Add the following to the Bibliography:

Paragraphs

Citation

300302

Public Law 102-190,
section 652,
December 5, 1991
Public Law 104-188,
section 1402,
August 20, 1996
10 U.S.C. 1475-1480
26 U.S.C. 134
Internal Revenue Service
Publication 3,
Armed Forces' Tax Guide