



Internal Revenue Service **IRS.gov**

DEPARTMENT OF THE TREASURY

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## The Newsroom

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### Employer's Frequently Asked Questions for Employees in Combat Zone

**Q-38: If an employer has an employee who is called to active duty and the employer continues to pay the employee's full salary while on military duty and the employee is stationed in a combat zone, does the employer withhold federal income tax from the wages? If not, are there any Form W-2 reporting requirements?**

A-38: The employment relationship between the employee and the company was terminated when the worker was called for active military service with the U.S. government or for active service with the state National Guard. Under the circumstances, the payments made by the company to the former employees while they are in military service with the U.S. government or active service with the state National Guard are not "wages" for services performed in "employment" for the companies. These payments, therefore, are not "wages" subject to the taxes imposed by the Federal Insurance Contributions Act and the Federal Unemployment Tax Act or to the Collection of Income Tax at Source on Wages.

- **Reference for questions 38 and 39:** IRS Revenue Ruling 69-136

**Q-39: If an employer pays an employee who has been called to active duty the difference of his salary and the amounts received from the military is this subject to employment tax withholding?"**

A-39: The employment relationship between the employee and the company was terminated when the worker was called for active military service with the U.S. government or for active service with the state National Guard. Under the circumstances, the payments made by the company to the former employees while they are in military service with the U.S. government or active service with the state National Guard are not "wages" for services performed in "employment" for the companies. These payments, therefore, are not "wages" subject to the taxes imposed by the Federal Insurance Contributions Act and the Federal Unemployment Tax Act or to the Collection of Income Tax at Source on Wages.

**Q-40: If an employer pays an employee who is called to active duty his vacation pay is this pay subject to social security, Medicare and income taxes?"**

A-40: Yes, vacation pay that is earned or accrued prior to the worker being called for active duty or active service is subject to withholding as if it were a regular wage payment, even if paid to the worker after activation. When vacation pay is in addition to regular wages for the vacation period, treat it as a supplemental wage payment. If the vacation pay is for a time longer than your usual payroll period, spread it over the pay periods for which you pay it. Vacation pay that is earned or accrues after the employment relationship is terminated by activation is not a wage payment.

- **Reference for questions 40-42:** Publication 15, Employer's Tax Guide ([PDF 344K](#))

**Q-41: If a co-worker wants to donate vacation time to an employee who is called to active duty to whom is leave taxable?"**

A-41: The donated vacation time is taxable to the recipient of the vacation time. As a result,

the employee on active duty receiving donated vacation pay is subject to withholding of social security, Medicare and income taxes as if it were a regular wage payment. When vacation pay is in addition to regular wages for the vacation period, treat it as a supplemental wage payment. If the vacation pay is for a time longer than your usual payroll period, spread it over the pay periods for which you pay it.

**Q-42: An employee received an award from their employer and wishes to donate the award to a co-worker who has been called to active duty. To whom is the award taxable?"**

A-42: The award is taxable to the recipient. The recipient's award is subject to withholding of social security, Medicare and income taxes as if it were a regular wage payment. When an award is in addition to regular wages, treat it as a supplemental wage payment.

*For more details on deadline extensions related to military service, see Publication 3, Armed Forces' Tax Guide ([PDF 187K](#)).*

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