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Military Pay Exclusion - Combat Zone Service

Q-2: I am a member of the U.S. Armed Forces performing services in a combat zone. Is any part of my military pay for serving in this area excluded from gross income?

A-2: Yes, if you serve in a combat zone as an enlisted person or as a warrant officer (including commissioned warrant officers) for any part of a month, all your military pay received for military service that month is excluded from gross income. For commissioned officers, the monthly exclusion is capped at the highest enlisted pay, plus any hostile fire or imminent danger pay received. For 2002, the most an officer could earn tax-free each month was \$5,532.90 (\$5,382.90, the highest monthly enlisted pay, plus \$150 hostile fire or imminent danger pay). The Emergency Wartime Supplemental Appropriations Act of 2003 (P.L. 108-11) raised the imminent danger pay to \$225 per month through September 2003. Therefore, the 2003 combat pay exclusion for officers is \$5,957.70 per month through September, and \$5,882.70 per month for the remainder of the year. Amounts excluded from gross income are not subject to federal income tax.

Q-3: My husband and I are both enlisted personnel serving in the U.S. Armed Forces in the combat zone. Are we each entitled to the income tax exclusion for military pay?

A-3: Yes, each of you qualifies for the income tax exclusion for your respective military pay.

Q-4: I am a member of the U.S. Armed Forces stationed on a ship outside any combat zone. I fly missions over a combat zone as part of the military operations in that combat zone. Is any part of my military pay excluded from gross income?

A-4: Yes. The combat zone includes the airspace over it, so you are serving in the combat zone. See Q&A-2 above for a discussion of the amount of your military pay that is excluded.

Q-5: If I am injured and hospitalized while serving in the U.S. Armed Forces in a combat zone, is any of my military pay excluded from gross income?

A-5: Yes. Military pay received by enlisted personnel who are hospitalized as a result of injuries sustained while serving in a combat zone is excluded from gross income for the period of hospitalization, subject to the 2-year limitation provided below. Commissioned officers have a similar exclusion, limited to the maximum enlisted pay amount per month. (See Q&A-2 above.) These exclusions from gross income for hospitalized enlisted personnel and commissioned officers end 2 years after the date of termination of the combat zone.

Q-6: My wife is currently serving in the U.S. Armed Forces in a combat zone and will be eligible for discharge when she returns home. If she is discharged upon her return, will the payment for the annual leave that she accrued during her service in the combat zone be excluded from gross income?

A-6: Yes. Annual leave payments to enlisted members of the U.S. Armed Forces upon discharge from service are excluded from gross income to the extent the annual leave was accrued during any month in any part of which the member served in a combat zone. If your wife is a commissioned officer, a portion of the annual leave payment she receives for leave accrued during any month in any part of which she served in a combat zone may be excluded. The annual leave payment is not excludable to the extent it exceeds the maximum enlisted pay amount (see Q&A-2 above) for the month of service to which it relates less the

amount of military pay already excluded for that month.

Q-7: I am an enlisted person serving in a combat zone. If I reenlist early while I am in the combat zone and receive my reenlistment bonus several months later when I am stationed outside the combat zone, is any part of my reenlistment bonus excluded from gross income?

A-7: Yes. The reenlistment bonus is excluded from gross income although received in a month that you were outside the combat zone, because you completed the necessary action for entitlement to the reenlistment bonus in a month during which you served in the combat zone.

Q-8: My brother, who is a civilian in the merchant marine, is on a ship that transports military supplies between the United States and the combat zone. Is he entitled to the combat zone military pay exclusion?

A-8: No. Those serving in the merchant marine are not members of the U.S. Armed Forces. The combat zone military pay exclusion applies only to members of the U.S. Armed Forces. Neither federal civilian employees nor civilian defense contractors deployed with U.S. forces qualify for an exclusion of income earned while working in a combat zone or qualified hazardous duty area. They may, however, qualify for an [extension of deadlines](#) to file and pay taxes.

The U.S. Armed Forces include all regular and reserve components of the uniformed services that are under the control of the Secretaries of Defense, Army, Navy, and Air Force, and the Secretary of Homeland Security with respect to the Coast Guard.

Q-9: My husband is a member of the U.S. Armed Forces performing services related to a combat operation but he is not in the combat zone and he is not receiving hostile fire/imminent danger pay. Is he entitled to the military pay exclusion?

A-9: No. U.S. Armed Forces personnel serving outside the combat zone are not entitled to the military pay exclusion unless they are serving in direct support of military operations in the combat zone for which they receive hostile fire/imminent danger pay. The Department of Defense certifies [areas that meet these requirements](#).

Q-10: How do I certify my entitlement to the military pay exclusion?

A-10: Your service branch must certify your entitlement on the Form W-2 it provides you. If you believe you are entitled to the exclusion, but it is not reflected on your Form W-2, ask your service branch to issue a corrected Form W-2.

*For more details on the exclusion of military pay,
see [Publication 3](#), Armed Forces' Tax Guide.*
