

What It Means for You

The Combat Zone Tax Exclusion (CZTE) is a provision that exempts all or a portion of earnings from federal income taxes while an active duty Soldier is deployed to a designated combat zone or hospitalized as a result of wounds, disease, or injury incurred while serving in the combat zone. This can mean more money in your pocket and an opportunity to achieve financial goals like paying off debt and saving for retirement.

How Does It Work?

In most cases, if you are serving one or more days in a designated combat zone, federal income taxes are excluded on the following military compensation:



- **Basic Pay**
- **Incentive Bonuses**
- **Imminent Danger/Hostile Fire Pay**
- **Continuation Pay under BRS**
- **Awards and Other Financial Incentives:**
Income from submissions made while in a combat zone
- **Combat Zone Injury Income:**
Income earned while hospitalized from an injury sustained in a combat zone (up to 2 years after departing combat zone)
- **Student Loan Repayment:**
Income from the portion of student loan repayment programs associated with the months spent in a combat zone. For example, if one year is required to earn the repayment, a Soldier who served six of those months in a combat zone can exclude half of the repayment income from taxes.
- **Accrued Leave Sold:**
Income earned in a combat zone from selling accrued leave.

CZTE adjustments will be automatically reflected on your pay statement and W-2. Review both for confirmation. You do not have to sign up or enroll. Note that Medicare and Social Security taxes will apply.

Maximum Exclusion

For enlisted members, Warrant Officers and Commissioned Warrant Officers, all military pay for each month in a combat zone is excluded from federal taxation. For Commissioned Officers, the amount of income excluded is limited to the highest rate of enlisted pay plus imminent danger/hostile fire pay for each month present in a combat zone. Married Personnel have exclusions and can learn more at: <https://www.irs.gov/individuals/military/tax-exclusion-for-combat-service>.

Higher Thrift Savings Plan (TSP) Limits

Under normal circumstances, with no deployment to a combat zone, Soldiers can make Thrift Savings Plan contributions up to the amount of the IRS Annual Elective Deferral Limit, IRC 402 (g). When deployed to a combat zone, the IRS Annual Addition Limit, IRC 415 (c) is used instead.

Since this limit applies to all contributions made to a Soldier's account, the maximum permitted contribution by a Soldier will be the Annual Addition Limit minus any service-provided automatic and matching contributions made under the Blended Retirement System (BRS). Those not covered under BRS will be able to contribute up to the full limit. Additionally, catch-up contributions, IRC 414 (v) are permitted for those age 50 and older.

Higher Thrift Savings Plan (TSP) Limits (continued)

Contributions to Roth TSP accounts are limited to the Elective Deferral Limit so contributions in excess of this limit, along with service-provided automatic and matching contributions, will all be made to the participant's Traditional TSP account. Because of this limit, Soldiers wishing to maximize Roth account contributions while in a combat zone will often fund a Roth IRA as well.

For participants who contribute to both a civilian TSP (or other tax-deferred retirement plan) and an uniformed services TSP account during the year, the elective deferral and catch-up contribution limits apply to the combined amounts of traditional and Roth contributions made to both accounts. Because tax rules are complex, you may wish to consult a tax advisor if you exceed the elective deferral limit.

IRA Limits

The maximum contribution to an Individual Retirement Account (IRA) is subject to change each year by the IRS. Visit the IRS website to get the most up to date information. Under the CZTE, you can make a Roth IRA contribution with your tax-exempt income. Note: You can make contributions to both the TSP and an IRA. They are separate retirement savings accounts. With an IRA, your income determines whether your traditional IRA contributions are deductible, and the amount of money you can contribute to a Roth IRA depends on your income.

If you file a joint return, your Spouse may be able to contribute through a Spousal IRA account. Visit the Kay Bailey Hutchison Spousal IRA Limit for more information.

Remember, in the case of the TSP and IRA, these are retirement accounts. You cannot access this money until the age of 59½ without penalty and tax consequences. Plan ahead, examine your budget, then contribute as much as possible to your TSP and IRA to take full advantage of this tax benefit, if it makes sense for your situation.

Special Considerations for Retirement Accounts

Typically, contributions to a Roth IRA are after-tax and withdrawals are tax-free (additional rules may apply). If you qualify for the CZTE, your Roth contributions to the TSP and/or a Roth IRA will be made with income that has **not** been taxed when earned and **will not** be taxed at withdrawal. It is a huge opportunity to boost retirement savings!

Resources:

IRS Guidelines: <https://www.irs.gov/individuals/military/tax-exclusion-for-combat-service>

DoD Definition: <https://militarypay.defense.gov/Pay/Tax-Information/CZTE>

Military Pay Tables: <https://www.dfas.mil/militarymembers/payentitlements/Pay-Tables>

Combat Zones: <https://www.dfas.mil/militarymembers/payentitlements/Pay-Tables/CZ1>

TSP Limits: <https://www.tsp.gov/making-contributions/contribution-limits>

Spousal IRA: https://www.irs.gov/publications/p590a#en_US_2023_publink1000230412



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