



DEFENSE FINANCE AND ACCOUNTING SERVICE

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OCT 10 1996

DFAS-HQ/F

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
- CLEVELAND CENTER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
- DENVER CENTER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
- INDIANAPOLIS CENTER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
- KANSAS CITY CENTER

SUBJECT: Department of Defense Financial Management Regulation,  
Volume 7, Part A (DoDFMR, Vol 7A), Tax Exclusion for  
Members Serving in Bosnia-Herzegovina, Croatia, or  
Macedonia (DFAS Item F-45)

This is DFAS Interim Change Number 41-96 to the DoDFMR,  
Vol 7A.

We have evaluated your comments on the draft change to the DoDFMR, Vol 7A, Part One, Chapter 10, which establishes tax exclusions for members serving in Bosnia-Herzegovina, Croatia, or Macedonia, hereafter referred to as a qualified hazardous duty area and increases the amount of compensation that may be excluded from taxes for officers serving in designated combat zones, and qualified hazardous duty areas. The attached final version of the change includes your comments where appropriate. Assignment of an interim change number is your authority to initiate programming and procedural modifications to facilitate this change.

We have determined this regulatory change is to be implemented under the auspices of DFAS Regulation 7920.3-R. The DJMS PMO will ensure the necessary systems changes are scheduled for implementation consistent with all known requirements. Centers are advised to make DFAS Headquarters (FMM) an information addressee on implementing field procedures. For the Denver Center, use the attached to initiate the formal printed change to the DoDFMR, Vol 7A.

Our point of contact, Ms. Ann Cook, may be contacted at (703) 607-5059 or DSN 327-5059. Our FAX number is (703) 602-5271 or DSN 332-5271.

Roger W. Scearce  
Brigadier General, USA  
Deputy Director for Finance

Attachment:  
As stated

cc: DASD (MPP) (COMP)  
DFAS-HQ/DG  
DFAS-DE/DG  
Service Liaisons  
USCG/NOAA/PHS Liaisons  
DJMS/PM

1. Revise paragraph 70102a (440102a) to read:

"On or before 31 March 1996, all active duty members for any month during which they qualify for combat zone or qualified hazardous duty area exclusion, as prescribed in paragraph 70103. Beginning 1 April 1996, for commissioned officers (O-1 and above), pay earned up to the highest rate of pay payable to any enlisted member plus the amount of hostile fire/imminent danger pay that is actually payable to the officer for any month during which they qualify for combat zone or qualified hazardous duty area exclusion, as prescribed in paragraph 70103, is not subject to withholding of Federal and state income tax."

2. Revise paragraph 70102b (440102b) at the end of the last sentence to read:

"...and terminated on June 30, 1996."

3. Revise paragraph 70103 (440103) to read:

"70103 (440103). Combat Zone Income Tax Exclusion for Active Service in a Combat Zone or Qualified Hazardous Duty Area

4. Add new paragraph 70103b (440103b) to read:

"b. Qualified Hazardous Duty Area Defined:

Effective 21 Nov 1995, Public Law 104-117 authorized tax benefits for members performing services in peacekeeping efforts in Bosnia-Herzegovina, Croatia, and Macedonia, hereinafter referred to as qualified hazardous duty areas, in the same way as if services were performed in a combat zone."

5. Renumber subsequent paragraph accordingly.

6. Revise renumbered 70103c (440103c) to read:

"c. Qualification for Combat Zone Income Tax Exclusion for Active Service in a Combat Zone or Qualified Hazardous Duty Area: A member of the Armed Services is entitled to combat zone tax exclusion or qualified hazardous duty area exclusion for any month during any part in which:

(1) A member performs active service in a combat zone or qualified hazardous duty area ...

(2) A member in active service in a combat zone or qualified hazardous duty area who becomes a prisoner of war ...

(3) A member assigned to duty in the combat zone, or qualified hazardous duty area on or after 21 Nov 1995, who is

directed to perform temporary duty, granted official leave, or is authorized to depart from the zone or area for other lawful cause, and whose departure or return is on any day of the month may receive the combat zone or qualified hazardous duty area exclusion for that month. Exception: In instances when the absence on leave, TAD, or TDY extends over a period which includes a full calendar month, the tax exclusion may not be allowed for that calendar month.

(4) A member who is present, however briefly, in the combat zone or qualified hazardous duty area on official duty requiring presence in that zone or area qualifies for combat zone or qualified hazardous duty area tax exclusion for that month. When the airspace over a combat zone or qualified hazardous duty area is included as part of the zone or area, members who pass over or through the zone or area during the course of a trip between two points, both of which lie outside the zone or area, are entitled to an exclusion only if the members are assigned to official temporary duty to the airspace of the zone or area, or qualify for hostile fire/imminent danger pay as a result of the flight. If the airspace is not designated for imminent danger pay (but is part of the designated zone or area), members must be assigned to perform duty in the airspace rather than flying over the zone or area as in an incidental part of the trip to qualify for the exclusion. The fact that most members are in an official duty status when flying through a designated airspace should not be construed to mean they are assigned to the airspace to perform duty and therefore entitled to the exclusion. The following examples apply:

Example 1. Member A is assigned as a navigator to an air unit stationed outside a combat zone. On 4 June, during the course of a flight between A's home base and another base outside the combat zone, the aircraft on which A serves as a navigator flies over a combat zone (the airspace is part of the designated combat zone). Member A is not on official temporary duty in the airspace of the combat zone and does not qualify for hostile fire/imminent danger pay as a result of the flight. Accordingly, A is not deemed to have served in a combat zone since A passes through the combat zone without either being on official duty to the combat zone or qualifying for hostile fire/imminent danger pay.

Example 2. Same scenario as example 1, except that the airspace is not part of the designated zone and member B is entitled to hostile fire/imminent danger pay as a result of the flight. Member B is deemed to have served in a combat zone and entitled to the combat zone tax exclusion if member B duties are determined to be in direct support of the military operation in the zone.

Example 3. Member C is a navigator of an air unit stationed outside a combat zone. On June 4, Member C is ordered to perform duty (execute a mission) in the airspace over the combat zone

(which is part of the designated zone) and return to his home station outside the combat zone. Member C is not entitled to hostile fire/imminent danger pay as a result of the flight. Member C is entitled to the combat zone tax exclusion for the month of June for performing official temporary duty in the airspace (combat zone) during the period."

(5) A member performs military duties in areas outside the combat zone or qualified hazardous duty area in direct support of military operations in the combat zone or qualified hazardous duty area and qualifies for hostile fire or imminent danger pay under part one, chapter 10. (The hostile fire or imminent danger pay entitlement must be related to activities or circumstances in the combat zone or qualified hazardous duty area.) Commanders/commanding officers who feel members of their unit qualify for combat zone or qualified hazardous duty area treatment under this provision should request certification from the applicable approval authority as designated by the Secretary of Defense.

(a) When members are entitled to tax exclusion under this paragraph, entitlement continues for periods of absence, prisoner or missing status, and temporary duty as stated for service in the actual combat zone or qualified hazardous duty area in c(1), (2), (3), or (4) above."

7. Revise paragraph 70103c(5) (b), 1 through 3 (440103c (5) (b) 1 through), adding "or qualified hazardous duty area" after "combat zone" wherever it appears.

8. Revise paragraph 70103c(6) (440103c (6)) to read:

"A member is hospitalized or rehospitalized any place as a result of wounds, disease, or injury incurred while serving in a combat zone or qualified hazardous duty area or while serving under in areas under c(5) above. A member is considered as hospitalized or rehospitalized until such time as status as a hospital patient ceases by reason of discharge from the hospital. Combat zone or qualified hazardous duty area tax exclusions under this paragraph shall not apply to any months beginning more than 2 years after the date of the termination of activities in the combat zone or qualified hazardous duty area."

9. Revise renumbered 70103d (440103d) to read:

"Periods For Which Tax Exclusion Does Not Apply. Members who are in the combat zone or qualified hazardous duty area merely for their own convenience, e.g., while on leave from a duty station not in the zone or area, are not entitled to the exclusion.

10. Revise renumbered 70103e(1) (440103e(1)) as follows:

"A member who dies in a combat zone or qualified hazardous

duty area, or as a result of wounds, disease, or injury incurred while serving in the combat zone or qualified hazardous duty area (including under c(5) above) is exempt from income tax for :"

11. Revise 70103e(1)(b) (440103e(1)(b)) to read:

"Any prior taxable year ending on or after the first day served in a combat zone or qualified hazardous duty area."

12. Revise 70103f (440103f) to read:

"Termination Date Other Than Cases of Hospitalization. In no case will the tax exclusion authorized in c(1) through c(6) above for active duty members extend beyond the effective date specified in an executive order terminating the designation of the combat zone, or in the case of qualified hazardous duty areas, the effective date of the termination of imminent danger pay for the area."

13. Paragraph 70113 (440203). Revise the paragraph to include "qualified hazardous duty area" everywhere "combat zone" is referenced.

14. Revise Table 7-1-1 (44-1), Rule 1, Column B to read:

"for any month combat zone or qualified hazardous duty area exclusions do not apply (notes 2 and 14)."

15. Revise Table 7-1-1 (44-1), Rule 1, Column C, delete all wording.

16. Revise Table 7-1-1 (44-1), Rule 1, Column D to read:

"For enlisted members or warrant officers (W-1 through W-5), and up to \$500 per month of such pay for commissioned officers (O-1 and above) for any month combat zone tax exclusion applies. Beginning 21 Nov 1995, for commissioned officers (O-1 and above) in amounts up to the highest rate of pay payable to any enlisted member plus the amount of hostile fire/imminent danger pay that is actually payable to the officer for any month combat zone or qualified hazardous duty area tax exclusion applies (notes 2 and 7); or, for any member while in a missing status authorized tax exclusion under the provisions of paragraph 70102b.

17. Revise Table 7-1-1 (44-1), Rule 7, Column D to read:

"If reenlistment or extension occurs in a month during which combat zone or qualified hazardous duty area exclusion applies."

18. Revise Table 7-1-1 (44-1), Rule 15, Column D to read:

"If death occurs in month member was entitled to combat zone or qualified hazardous duty area exclusion."

19. Revise Note 2, Table 7-1-1 (44-1) to read:

"2. Add payments (rules 1 through 6) made currently or at a later date for commissioned officer service (0-1 and above) to other pay for the month of service (up to the highest rate of pay payable to any enlisted member) to determine the maximum amount to be applied for combat zone or qualified hazardous duty area exclusion. (See paragraph 40403b (350103)).

20. Revise Note 4, Table 7-1-1 (44-1) to read:

"Exception is pay earned for any month combat zone or qualified hazardous duty area exclusion applies. Combat zones and qualified hazardous duty areas are so designated by Executive Order or statute, respectively."

21. Revise Table 7-1-1 (44-1), Note 7, to read:

"Only pay and allowances actually earned during any month a combat zone or qualified hazardous duty area designation applies are excludable, even if paid in later, non-qualifying month. Entitlements earned during any non-qualifying month but paid in a month the exclusion applies, remain taxable. Accrued leave payments qualify only for that portion of days which were actually earned during a qualifying month."

22. Revise Table 7-1-1 (44-1), Note 9, to read:

"9. If... unless the combat zone or qualified hazardous duty area exclusion is..."

23. Revise Table 7-1-1 (44-1), Note 13, to read:

"13. SSB and VSI payments remain taxable even if a member signs the agreement to separate while serving in a combat zone or qualified hazardous duty area."

24. Add Note 14 to Table 7-1-1 (44-1), to read:

"For combat zone and qualified hazardous duty areas, effective 1 Apr 1996, for commissioned officers (0-1 and above), amounts over the highest enlisted grade (Sergeant Major of the Army, Master Chief Petty Officer of the Navy, Chief Master Sergeant of the Air Force, or Sergeant Major of the Marine Corps. See Table 1-2-8, note 2 for clarification) plus the amount of hostile fire/imminent danger pay that is actually payable to the officer for that month are taxable and subject to Federal and state tax withholding."

25. Revise the first and second sentences of paragraph 40403b (350103) to read:

"b. Payment for any leave accrued while serving in a designated combat zone or qualified hazardous duty area which

remains unused at separation is excluded from Federal taxation (and state taxation where applicable) under the conditions set forth in paragraph 70103 (440103) and is not subject to Federal or state income tax withholding. (Also, see table 7-1-1 (44-1), rules 4 and 14).

26. Add references to the bibliography as follows:

40403 (350103)	P.L. 104-117, 20 Mar 1996
	26 CFR 1.112-1 (b) (2)
70103 (440103)	P.L. 104-117, 20 Mar 1996
Table 7-1-1 (44-1)	P.L. 104-117, 20 Mar 1996
Notes 2 and 4	P.L. 104-117, 20 Mar 1996