

Exemptions and Extensions:

Why tax time shouldn't stress you out when you're deployed

By Janine Boldrin

While the deadline for most Americans to file their taxes has passed, special extensions to the deadline allow many deployed service members to file later than April 18. So if you haven't finished your taxes yet there's still time to get familiar with the many tax laws that are in place that benefit deployed service members—or, keep these tips in mind when filing next year. We've asked the tax experts at the H&R Block Tax Institute for some of their best tips and must-have information to help decrease the stress that can come with filing taxes during a deployment:



Boots on the Ground...

Amy Crispino, military spouse and volunteer for the Volunteer Tax Assistance (VITA) Program, who has filed hundreds of returns for military service members and their families, on what she has seen on the frontlines of tax preparation:

"It may seem very simple, but I experience the situation over and over: Soldiers need to check for tax documents online. Often they have opted out of paper mailings, including tax documents. Just because you don't receive a 1099-INT, 1099-B, or 1099-DIV statement in the mail doesn't mean that you do not have reportable income. These documents apply to checking/savings accounts, stocks, and mutual funds. All income affiliated with your social security number is reportable income."

What essential tips do you have for deployed service members when it comes to preparing their taxes this year?

- First, the deadline for filing tax returns, paying taxes, and taking other actions with the IRS is automatically extended if a service member is in a combat zone. Generally, the deadline is extended 180 days after the last day the service member is in a combat zone, or even longer if hospitalized for injuries sustained in a combat zone.
- Generally, a taxpayer must sign the tax return, but if a service member is overseas, he or she can grant a power of attorney to someone else to sign the return, such as a spouse, family member, or friend. A power of attorney can be granted by filing Form 2848, Power of Attorney and Declaration of Representative.

What is the best way for a service member to determine all of their options when it comes to optimizing their deductions during a deployment year?

- Optimizing deductions requires a fairly good grasp of what is deductible and what is not, and how to account for those deductions. Deducing an expense that is not deductible is illegal and subject to a correction by the IRS; however, the IRS will not tell you if you qualify for a deduction and you don't take it.
- There is no complete and separate set of tax laws for the military, although there are some exemptions. Therefore, to optimize one's tax deductions — or really, to minimize one's tax liability — the service member should get professional tax assistance to minimize the possibility of missing a valuable deduction or credit. There's nothing wrong with learning

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about tax law on your own if you are so inclined, but this usually takes a lot of time, especially since the laws change fairly often.

- Keeping good records is highly encouraged. Not only will good records support the authenticity of certain transactions, but they also become a form of a financial diary to help the taxpayer remember events and activities that may have a tax impact. A photographic memory may be a great asset, but the IRS will not allow a deduction strictly on the basis of anyone's memory, no matter how good it is! Keeping eligible receipts and other info in one place, or even scanning and saving to a special file on your computer may be a good way to put your hands on the necessary information when you need it.

What are several tax laws deployed service members should know about when filing their taxes?

- Service members whose only pay is combat pay can still use that pay as a basis for contributing to an IRA, even though the combat pay is excluded from taxable income. Similarly, the excluded income may be used to qualify for the earned income tax credit. This special treatment is not available to non-service members.
- That said, even if service members are deployed overseas, their military salaries and wages do not qualify for the earned income exclusion. This is an exclusion of up to \$91,500 that taxpayers need not report as income if earned outside the U.S. If their spouse travels overseas with them and has foreign earned income, they may claim this exclusion if they otherwise qualify.

The experts at H&R Block say that there are many types of benefits that are totally excludable from income, such as various family allowances, living allowances, moving and travel allowances, and other types of pay and allowances. In order to best understand what you may or may not be entitled to claim when filing your taxes, service members should check out the IRS's Publication 3: *Armed Forces' Tax Guide*, and consider using one of the filing options available to them via Military OneSource and their installation in order to prepare and file their taxes post-deployment. ●

Special information from H&R Block for National Guard Members and Reservists

Although taking a distribution from an IRA before retirement is not desirable, it may be necessary in some circumstances. Generally, taxpayers who are under age 59 and who take early distributions from a retirement plan or IRA may have to pay a penalty of 10 percent of the distribution amount. However, this penalty does not apply to reserve component members who(se):

- Were ordered or called to active duty after 9/11
- Were ordered or called to active duty for at least 180 days, or for an indefinite period
- Distribution is from an IRA or qualified retirement plan such as a 401(K)
- Distribution was made on or after the date of the order or call to active duty, and during the active duty period

Volunteer Tax Assistance Program (VITA)

Service members and their families can receive free tax advice and preparation at VITA centers located within their installations. Volunteers are trained and prepared to address military related tax questions and concerns. Most service members are able to file electronically at the center and receive their refund via direct deposit. To find your local VITA center, call 1-800-906-9887.

H&R Block teams up with Military OneSource!

H&R Block prepares one in every seven U.S. tax returns. And now they've teamed up with Military OneSource to offer free access to a customized version of the H&R Block At Home software to active duty service members. This service will allow service members to file their federal tax return and up to three state tax returns, including free e-filing and telephone consultation for service members with tax questions. The online filing and telephone consultation for tax year 2010 is available through June 30, 2011.