




## Lesson Plan

### Military Income

Time Required: 60 minutes

Introduction	Objectives	Topics
<p>This lesson helps volunteer tax preparers determine which income received by current and former members of the U.S. Armed Forces is reportable on the return, and the status of any medical separation pay or pay related to service in a combat zone.</p>	<p>Determine:</p> <ul style="list-style-type: none"><li>• Which income items received by members of the U.S. Armed Forces are reportable on the tax return</li><li>• The status of any medical separation pay or pay related to service in a combat zone</li></ul>	 <p>Includible and Excludable Income Medical Separation Pay Combat Zone Exclusion Community Property</p>

### Key Terms

**Active Pay:** The military income a service member receives while on active duty (versus retirement or retainer pay).

**BAH:** Basic allowance for housing, a type of excludable military income.

**BAS:** Basic allowance for subsistence, a type of excludable military income.

**Combat Zone:** Any area (1) the President of the United States designates by Executive Order as an area in which the U.S. Armed Forces are engaging or have engaged in combat, (2) the Department of Defense has certified for combat zone tax benefits due to its direct support of military operations, or (3) established by statute as a Qualified Hazardous Duty Area where the service member receives imminent danger pay. Members of the U.S. Armed Forces who serve in a combat zone may exclude military pay from their taxable income.

**Letter of Determination:** Document from the Department of Veterans Affairs (VA) sent to discharged service members who qualify for severance pay subject to medical disability, which is nontaxable.

**Medical Severance Pay:** A type of includible military income given to service members who have been separated from the service for medical reasons.

**OHA:** Overseas housing allowance, a type of excludable military income

**SSB:** Special separation benefits, a type of military severance payment that affects the amount of VA compensation paid.

**VA Disability Compensation:** VA disability compensation is a monetary benefit paid to veterans who are disabled because of injury or disease incurred or aggravated during active military service.

## Teacher Tips

### Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Provide details and engage the students	<p><b>Discuss</b> all tips and cautions in detail.</p> <p><b>Ask</b> students to read and/or role-play examples and sample interviews.</p> <p><b>Review</b> answers to each exercise; ask students how they arrived at their answers.</p>	<p><b>Internet:</b>  <a href="#">Link &amp; Learn Taxes (L&amp;LT) Military Income</a></p>

### Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	<p><b>Review</b> lesson objectives.</p> <p><b>Review</b> list of references.</p> <p><b>State</b> the presentation time.</p> <p><b>Review</b> key terms.</p>	<p><b>Visuals:</b>  <a href="#">Form 13614-C</a>, Page 2, Part III  <a href="#">Pub 3</a>            Pub 4012, Tab D, Income</p> <p><b>Internet:</b>            YouTube video: <a href="#">Military Tax Tips</a></p>
Includible and Excludable Income	<p><b>Prompt</b> students to share what they know about reporting military income using the L&amp;LT questions.</p> <p><b>Refer</b> to Pub 4012, Armed Forces Gross income with class to review different types of pay and allowances.</p> <p><b>Ask</b> students to explain the differences between includible and excludable income.</p> <p><b>Point out</b> that all includible military income is shown on Form W-2, box 1 and reported on Form 1040.</p>	<p><b>Visuals:</b>            Pub 4012, Tab D, Income:</p> <ul style="list-style-type: none"> <li>• <a href="#">Armed Forces Gross Income</a></li> <li>• <a href="#">Examples of income items</a></li> <li>• <a href="#">Form W-2 Instructions</a></li> <li>• <a href="#">How/Where to Enter Income</a></li> </ul> <p><a href="#">Pub 525</a>  <a href="#">Pub 3</a></p> <p><b>Internet:</b>  <a href="#">Homeowners Assistance Program (HAP)</a></p>

Medical Separation Pay	<p><b>Review</b> L&amp;LT topic Medical Separation Pay.</p> <p><b>Point out</b> that 100% of disability severance benefit is excluded from income.</p> <p><b>Remind</b> students when the taxpayer receives a letter of determination, an amended return must be filed.</p> <p><b>Inform</b> students that disability payments are paid directly from the VA and not listed on Form W-2.</p>	<p><b>Visuals:</b> <a href="#">Form 1040X</a></p> <p><b>Internet:</b> L&amp;LT Military Income, Medical Separation Pay</p>
Combat Zone Exclusion	<p><b>Review</b> L&amp;LT topic Combat Zone Exclusion.</p> <p><b>Review</b> Pub 3 combat zone areas.</p> <p><b>Remind</b> students that combat pay is indicated by code Q on Form W-2, box 12.</p> <p><b>Point out</b> that a service member who serves in direct support of a combat zone qualifies for combat pay which is excludable.</p> <p><b>Point out</b> that nontaxable combat pay may increase the child tax credit or earned income credit since it increases their earned income. Explain that it is an election to treat combat pay as earned income for this purpose.</p>	<p><b>Visual:</b> <a href="#">Form W-2</a></p> <p><a href="#">Pub 3</a>, Combat Zone Exclusion chapter</p> <p><b>Internet:</b> Combat Zones Approved for Tax Benefits</p>
Community Property	<p><b>Review</b> L&amp;LT topic Community Property.</p> <p><b>Ask</b> students to describe the difference between domicile and where a person lives and explain why the difference is relevant for community property states.</p> <p><b>Point out</b> that state community property laws apply to active military pay.</p>	<p><b>Visuals:</b> <a href="#">Pub 555</a></p>
Skills Workout	<p><b>Review</b> the Skills Workout with the class.</p>	<p><b>Internet:</b> L&amp;LT Military Income: Click Certification Warm Up icon to review the exercises</p>

References	
Form 13614-C	<a href="#">Form 13614-C</a> , Intake/Interview & Quality Review Sheet, Page 2, Part III
Pub 4012	Pub 4012, Volunteer Resource Guide, Tab D, Income <a href="#">Armed Forces Gross Income</a>

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	<a href="#">Examples of Income Items</a> <a href="#">How/Where to Enter Income</a> <a href="#">Form W-2 Instructions</a>
Form 1040X	<a href="#">Form 1040X</a> , Amended U.S. Individual Income Tax Return
Pub 3	<a href="#">Pub 3, Armed Forces Tax Guide</a>
Optional	
Pub 525	<a href="#">Pub 525, Taxable and Nontaxable Income</a>
Pub 555	<a href="#">Pub 555, Community Property</a>

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### Recommended Classroom Activities



**Skills  
Workout**



**Certification  
Warm Up**



**Media: Videos  
& Audio**



**TaxSlayer  
Tutorial**



**Job Aids**



**Practice  
Lab**



#### [Skills Workout: Link & Learn Taxes Military Income](#)

Click Skills Workout to access Link & Learn Taxes Military Income.



#### [Certification Warm Up – Summary and Exercises](#)

Click Certification Warm Up to access the exercises in Link & Learn Taxes Military Income.



#### [Media Video & Audio for Lesson](#)

There is no media associated with this lesson.



#### [TaxSlayer Tips and Resources for Lesson](#)

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Practice Lab Tutorial

From the [Practice Lab](#):

1. Enter the universal password (if you do not have the password, you can request it from your site coordinator or SPEC relationship manager).
  2. Sign in to Practice Lab or create an account.
  3. Select the appropriate tutorial.
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Job Aids

ITA and FAQs for Lesson

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Newsroom

10 Tips to Ease Tax Time for Military

<https://www.irs.gov/newsroom/tax-breaks-for-the-military>

What geographic areas are considered combat zones?

<https://www.irs.gov/uac/Combat-Zones>

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Practice Lab

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Practice Lab

<https://vita.taxslayerpro.com/IRSTraining>

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