

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 a Service member is deployed to a designated combat zone. This can mean more money in your pocket or more to achieve your financial goals. It also creates a scenario where you can contribute more than normal to the TSP.

Income Excluded

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



- **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 Service member 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 still 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.

Higher TSP Contribution Limits

Under normal circumstances, with no deployment to a combat zone, Service members can make Thrift Savings Plan contributions up to the amount of the IRS Annual Elective Deferral Limit, which is \$19,500 for 2020. When deployed to a combat zone, the IRS Annual Addition Limit (\$57,000 in 2020) is used instead.

Since this limit applies to all contributions made to a Service member's account, the maximum permitted contribution by a Service member 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 (\$6,500 in 2020) are permitted for those age 50 and older.

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, Service members wishing to maximize Roth account contributions while in a combat zone will often fund a Roth IRA as well.

Resources:

- IRS Guidelines: www.irs.gov/individuals/military/tax-exclusion-for-combat-service
- Combat Zones: www.dfas.mil/militarymembers/payentitlements/Pay-Tables/CZ1.html
- TSP Limits: <https://www.tsp.gov/making-contributions/contribution-limits/>

