

## A TAXING SEASON FOR MILITARY FAMILIES

*By Randy Opliger, chief financial officer for Pioneer Financial Services*

“The hardest thing in the world to understand is the income tax.” While it was Albert Einstein who first uttered these words, many of us have thought these same sentiments during the months leading up to tax day.

No one enjoys doing taxes, but diligence and knowing the latest tax information can have certain benefits including, among others: decreasing the likelihood of errors on your return, lessening the chance that you’ll require a filing extension (thus incurring penalties), allowing you to receive your refund check more quickly, and easing overall stress associated with this mundane task. To help guide you through this process, Pioneer Services has compiled some tax filing tips and savings advice for military families.

### Know important dates

Procrastinating on your taxes could cost you more in the long run, since many tax preparers charge more as Uncle Sam’s deadline approaches. This year’s federal individual income tax filing deadline is midnight April 17, two days later than the typical deadline, so you can take advantage of the extra time to file.

### Get organized

Whether you’re preparing your own return or hiring a professional, you’ll need to organize your receipts and records to make the process run as smoothly as possible.

» **Some of the documents you’ll need include:**

- W-2 forms from your employer
- 1099 forms from your banks and investment companies
- Mortgage interest documents
- Medical expense receipts
- Charitable contribution receipts
- IRA contribution records

» **Understand recent [tax law updates](#) (Congress extended several tax deductions in 2006) including:**

- State and local general sales tax
- Higher education expenses
- For 2006 only, you may be able to obtain a [tax credit for federal telephone taxes](#) paid on long-distance bills.

### Understand your tax breaks

As a service member, you and your family are eligible for several tax benefits. [The Military Family Tax Relief Act of 2003](#), and a number of other recently enacted laws, allows certain benefits and gains to be excluded from income on your federal tax return. And of course, reporting a lower income reduces the amount of taxes you are required to pay the federal government.

» **Home sales**

If you have a gain from the sale or exchange of your home, you may be able to exclude all or part of the gain from your income. To be eligible, you must own your home and have used it as your primary residence for two out of the last five years before the sale. However, if you were on qualified extended

duty in the military, you may suspend the ownership period for up to 10 years. You are on qualified extended duty when, for more than 90 days, you are at a duty station that is at least 50 miles from the residence sold, or residing under orders in government housing.

» **Overnight travel expenses**

Guard and Reservists who stay overnight more than 100 miles away from home while in service may deduct un-reimbursed travel expenses (e.g. transportation, meals and lodging).

» **[Combat Zone Extensions Expanded to Contingency Operations](#)**

The same extensions granted to combat zone participants to file returns or pay taxes will also apply to those serving in Contingency Operations, as designated by the Secretary of Defense (see below for extension details).

» **Death benefits**

For deaths occurring after September 10, 2001, a new law doubles the tax-free benefit paid to survivors of deceased Armed Forces members from \$6,000 to \$12,000.

» **[Department of Defense Homeowners Assistance Program](#)**

Under this program, payments made after November 11, 2003, to offset the adverse effects on housing values of military base realignments or closures can be excluded from income as a fringe benefit.

» **[Dependent Care Assistance Program](#)**

Dependent care assistance programs for military families are excludable from income as well.

» **[Earned Income Tax Credit \(EITC\)](#)**

Service members have the option of treating excludable combat pay, but not the basic allowance for housing or basic allowance for subsistence, as earned income for purposes of the EITC. This could help you avoid a situation in which your military pay exclusion leaves you with no earned income and thus no EITC. Under this provision, military personnel may opt to include all or none of their combat pay, but not just part of it, when calculating their EITC. And if you use the IRS' Free File, the program will automatically calculate your EITC for you.

### **[Consider an IRA](#)**

If you are a member of the military serving in Iraq, Afghanistan and other combat zone localities, you can now put money into an individual retirement account (IRA), even if you received tax-free combat pay. Under the [Heroes Earned Retirement Opportunities \(HERO\) Act](#), taxpayers can now count tax-free combat pay when determining whether they qualify to contribute to either a [Roth or Traditional IRA](#). Before this change, members of the military whose earnings came entirely from tax-free combat pay were generally barred from using IRAs to save for retirement.

Another benefit of contributing to a Roth IRA is that you don't need to report these contributions on your individual tax return. Roth contributions are not deductible, but distributions, usually after retirement, are normally tax-free. Income limits and other special rules apply. On the other hand, contributions to a traditional IRA are often, though not always, deductible, and distributions are generally taxable. Deductible or not, contributions to a traditional IRA must be reported on the return for the year made.

## Utilize free help

Military families may be eligible to receive free assistance with the preparation and filing of your federal tax return. The U.S. Armed Forces participates in the [Volunteer Income Tax Assistance \(VITA\) Program](#). The Armed Forces Tax Council (AFTC) oversees the operation of the military tax programs worldwide, and serves as the main conduit for outreach by the IRS to service members and their families.

Military-based VITA sites provide free tax advice, tax preparation, return filing and other tax assistance. These certified community volunteers are trained by the IRS to address military-specific tax issues, such as combat zone tax benefits, and are free help for service members and their families.

## Consider filing online

Free File allows service members to prepare and e-file your federal income tax return online for free. Offered only through the IRS Web site, Free File is available in English and Spanish and can be accessed from any computer connected to the Internet, making it especially convenient for those stationed abroad. And it can be accessed 24 hours a day, seven days a week.

Another benefit of using [Free File](#) is that refunds come faster—in half the time. If you use Free File and choose to receive your refund with Direct Deposit, you will receive your refund in as little as 10 days. And anyone with an adjusted gross income of \$52,000 or less in 2006 is eligible to use this filing service.

## Filing Extensions

The IRS automatically extends the deadline through mid-October 2007 for filing tax returns, paying taxes and filing claims for refunds for military members serving in a combat zone. This deadline is also extended for service members deployed overseas away from their permanent duty station in a qualified hazardous duty area but who are outside that area.

Visit [pioneerservices.com](http://pioneerservices.com) to learn more about their free financial education and investment opportunities. For more information on tax saving tips for the military, visit the IRS Web site at [IRS.gov](http://IRS.gov).

The information given in this article is advice, and you should always check with your tax representative or refer to the IRS Web site before filing your income taxes.

## About the author

*As Chief Financial Officer for Pioneer Financial Services, Randy Opliger is responsible for directing and overseeing all financial activities. He has 22 years of diverse financial management background, including SEC experience and has held executive level positions in both the public and private sectors. He received his BS degree from Wichita State University in 1979 and his CPA certification in 1982.*