



Income Taxes and Military Families: What Every Service Member Should Know

Free Tax Assistance, State Residency, Tax-Exempt Pay, and Special Filing Extensions

Military Service Adds a Few Wrinkles to Income Taxes

Nobody particularly enjoys preparing income tax returns. For military families, however, the annual encounter with the Internal Revenue Service can be especially complicated. A service member may be stationed in one state, claim legal residence in another, have a spouse working in a third, and spend part of the year deployed overseas.

Fortunately, federal law recognizes many of these circumstances and provides special tax benefits, exclusions, and filing extensions for eligible military personnel. Better yet, the Department of Defense and the IRS offer free assistance to help service members and their families understand their obligations.

The trick is knowing which rules apply to you. Let's begin with some of the most important differences between civilian and military income taxes.

For a broader understanding of federal income taxes, visit my [Taxes Explained](#) collection. There you'll find straightforward articles on tax liability, filing status, deductions and credits, taxable side income, and other common tax questions. This article concentrates on the special tax rules, exemptions, and assistance programs available to military members and their families.

Which Military Pay Is Taxable?

Not everything appearing on a military Leave and Earnings Statement (LES) is subject to federal income tax.

Generally taxable compensation includes basic pay, most bonuses, and many special or incentive payments. These amounts are ordinarily reported as taxable wages unless a specific exclusion applies.

Generally tax-exempt allowances include Basic Allowance for Housing (BAH), Basic Allowance for Subsistence (BAS), and certain qualifying travel, moving, and other allowances. Government-provided housing and some other benefits may also be excluded from taxable income.

This distinction is important because a service member's total military compensation can be substantially greater than the amount reported as taxable wages. However, tax-exempt allowances are not the same as tax-exempt military pay. Basic pay remains taxable unless a separate provision, such as the combat-zone exclusion, applies.

The IRS explains these distinctions in [Publication 3, Armed Forces' Tax Guide](#).

Combat-Zone Pay: An Important Tax Exclusion

One of the most valuable military-specific tax benefits is the **Combat Zone Tax Exclusion (CZTE)**.

Eligible service members who serve in designated combat zones or qualifying hazardous duty areas may exclude certain military compensation from federal taxable income. For enlisted personnel and warrant officers, qualifying military compensation is generally fully excluded for eligible months. Commissioned officers, other than commissioned warrant officers, are subject to a monthly exclusion limit established under federal law.

Eligibility depends on the nature, location, and timing of the service. Simply being deployed overseas does not automatically qualify a service member for combat-zone tax benefits.

An additional consideration involves the Earned Income Tax Credit (EITC). Eligible taxpayers may elect to include otherwise excluded combat pay when calculating that credit if doing so produces a more favorable result.

Because combat-zone designations and eligibility rules can change, consult the IRS's current [Combat Zones guidance](#) before preparing your return.

State Income Taxes: Where Do You Actually Live?

One of the most confusing tax questions for military families concerns state residency. Suppose a sailor is legally domiciled in Florida but receives orders to California. Does that sailor suddenly become a California resident for state income tax purposes?

Generally, no.

Under the **Servicemembers Civil Relief Act (SCRA)**, a service member does not acquire or lose state tax domicile merely because military orders require a move to another state. The state where the member is stationed generally cannot tax military compensation solely because the member is serving there under orders. This protection can be particularly valuable for service members whose legal domicile is a state without an individual income tax.

However, there are important qualifications. Military personnel may still owe taxes on income from other sources, such as rental property, a business, or certain employment outside military service. The state where that income is earned may have the authority to tax it. State tax rules also vary considerably. Some states exempt military compensation entirely, while others offer partial exclusions or special benefits.

The important distinction is between legal domicile and temporary military residence. A PCS assignment doesn't automatically change your domicile, but simply claiming a state as your home doesn't establish legal residency either. Maintain appropriate documentation and consult your state tax authority when questions arise.

Special State Tax Rules for Military Spouses

Military spouses have additional protections under the **Military Spouses Residency Relief Act (MSRRA)** and subsequent amendments to federal law. These provisions can allow an eligible military spouse to retain or elect a qualifying state of residence for tax purposes while accompanying a service member to another duty station.

For example, a military spouse who moves from Texas to Virginia under military orders may, under applicable rules, be able to use Texas as the spouse's tax residence rather than becoming subject to Virginia income tax on qualifying employment earnings.

The rules have been expanded over time, including provisions allowing eligible spouses to elect the service member's residence, the spouse's residence, or the service member's permanent duty station for certain state tax purposes.

This can be particularly helpful to spouses whose employment requires frequent moves. However, it is not a blanket exemption from every state tax. The treatment of wages, business income, rental income, and other earnings may differ. Before filing, military spouses should check the tax rules of the states involved and consider using a tax preparer familiar with military residency laws.

Tax Benefits Associated With PCS Moves

Military families may also qualify for favorable tax treatment of certain moving expenses.

Federal law generally restricts the moving expense deduction, but qualifying active-duty Armed Forces members who relocate under military orders because of a permanent change of station may deduct certain reasonable, unreimbursed moving expenses.

Eligible expenses can include qualifying transportation of household goods and certain travel costs. Expenses already paid or reimbursed by the government cannot be deducted again. The IRS provides instructions through [Form 3903, Moving Expenses](#).

Keep copies of PCS orders, transportation documents, receipts, and reimbursement records. These documents can help establish whether an expense qualifies.

Special Tax Filing Extensions for Military Personnel

Military service can make meeting the usual April filing deadline difficult, particularly when a member is stationed overseas or serving in a combat zone. Fortunately, several special provisions may provide additional time.

Military personnel stationed overseas: Qualifying service members on duty outside the United States and Puerto Rico generally receive an automatic two-month extension beyond the regular federal filing deadline. However, interest may still accrue on unpaid taxes from the original due date.

Combat-zone service: Eligible personnel serving in designated combat zones or qualifying operations may receive substantially longer extensions. Generally, certain filing and payment deadlines are postponed for the qualifying service period plus at least 180 days afterward, with additional time potentially included under the applicable calculation.

Military spouses: Certain combat-zone deadline extensions also apply to spouses, whether they file jointly or separately, subject to specific exceptions. These rules can provide considerable relief to families dealing with deployments and separations. Nevertheless, an extension of time to file should not automatically be interpreted as an exemption from paying taxes.

For detailed instructions, consult the IRS guidance on [Combat-Zone Filing Extensions](#).

Free Tax Preparation Through Military OneSource

One of the most valuable financial benefits available to eligible military families is **MilTax**, the Department of Defense's free tax preparation program administered through Military OneSource. Designed specifically to accommodate the unusual circumstances of military life, MilTax provides tax preparation software that addresses such matters as PCS moves, combat pay, deployments, and filing returns in multiple states.

Eligible users can prepare and electronically file their federal income tax returns and multiple state returns without the income restrictions associated with some civilian free-filing programs. Because the number of state returns supported may change, users should consult the program's current guidelines before filing.

In addition to its tax preparation software, MilTax provides access to trained tax consultants who can answer questions about military-specific tax matters, including state residency, special allowances, and deployment-related benefits.

The program generally serves eligible active-duty personnel and their families, survivors, and certain recently separated or retired service members, although specific eligibility requirements apply. For information about available services, eligibility, and current filing options, visit [Military OneSource MilTax](#).

Free Tax Help at Military Installations

Many military installations also offer free tax preparation assistance through the IRS-sponsored **Volunteer Income Tax Assistance (VITA)** program. Trained volunteers can assist eligible military personnel and their families with federal and, where supported, state income tax returns. Military VITA volunteers may receive specialized training in subjects such as combat-zone benefits, state residency, and military-related tax exclusions.

Availability varies by installation, and not every base maintains a tax preparation center. Check with your installation's legal assistance office or use the IRS's [Free Tax Preparation Locator](#). If you intend to use an installation tax assistance program, make your appointment early. Tax season has a way of producing long lines, even in organizations accustomed to standing in formation.

What to Bring to Your Tax Appointment

Whether you use MilTax, VITA, or a private tax preparer, gather the necessary records before beginning.

These generally include your military W-2, any spouse's W-2, Forms 1099, Social Security numbers or other required taxpayer identification information, banking information, and documentation supporting deductions or credits. Military families should also have PCS orders, travel reimbursement records, information about combat-zone service, and records identifying their legal state of residence.

If the family operates a small business or earns self-employment income, keep accurate records of business receipts and legitimate expenses. Military spouses who work remotely or operate home-based businesses should pay particular attention to state tax obligations.

A little preparation can save considerable time and prevent the frustration of discovering that an essential document is sitting in a filing cabinet halfway across the country.

A Final Word About Military Taxes

Military service offers some meaningful tax advantages, but those benefits don't eliminate the responsibility to file accurate returns and pay taxes when required. The rules governing military income, state residency, PCS expenses, combat-zone exclusions, and filing extensions can be complicated. Fortunately, service members and their families have access to free assistance specifically designed to help them navigate those rules.

My advice is simple: Take advantage of the help available, keep good records, and don't assume that the tax rules applying to your civilian neighbors necessarily apply to you. Your country appreciates your service, but the IRS still expects to hear from you—unless, of course, you've qualified for one of those special extensions.

Perhaps someday Congress will decide that the men and women who volunteer to defend their country deserve an exemption from federal income taxes on their military pay. I wouldn't hold my breath waiting for that legislation, but it's a pleasant thought to entertain every April 15. Until then, take advantage of the tax benefits you've earned, make use of the free assistance available, and remember that serving your country doesn't necessarily excuse you from paying for the privilege.

Helpful IRS and Military Tax Resources

- [Taxes Explained — Curtis Jerry Smothers](#) — My collection of articles explaining everyday income tax questions, deductions, credits, filing requirements, and tax preparation.
- [IRS — Tax Information for Members of the Military](#) — Central source for military-specific federal tax guidance.
- [IRS Publication 3 — Armed Forces' Tax Guide](#) — Detailed explanations of military tax benefits and exclusions.
- [IRS — Combat Zones](#) — Qualifying service areas and combat-zone tax benefits.
- [IRS — Combat-Zone Filing Extensions](#) — Special filing and payment deadline rules.
- [IRS — Form 3903](#) — Deductible military moving expenses.
- [Military OneSource — MilTax](#) — Free military tax software and consultations.
- [IRS — Free Tax Preparation](#) — Find available VITA assistance.

Editor's Note: Federal and state tax laws, military tax exclusions, and filing deadlines can change. This article provides general educational information rather than individualized tax advice. Consult current IRS publications, applicable state tax authorities, or a qualified military tax adviser before filing.