

Q& A: Military Personnel

Overseas assignments. Members of the military assigned overseas may wonder about their eligibility for the EIC or CTC. Military personnel can claim these credits whether they live in the United States or overseas.

The IRS considers an individual assigned to an overseas tour of duty to be temporarily absent from the U.S. due to a special circumstance. The length of time the person is absent is treated as though he or she was in the U.S., as long as the individual plans to return to his or her main home in the U.S. at the end of the military assignment. Therefore, military personnel who live with qualifying children while stationed on active duty outside the U.S. can be eligible for the EIC and CTC. *Even if their qualifying children remain in the U.S.*, the children may be claimed for the EIC. Military couples living apart due to a military assignment must still file a joint return to receive the EIC.

An individual in the military under age 19 may be claimed as a qualifying child for the EIC. If such an individual is temporarily absent due to an overseas military assignment, he or she still may be considered a qualifying child as long as he or she intends to return home at the end of the military assignment.

Combat pay. Military pay received in a combat zone is non-taxable earned income, but it is treated differently than other forms of non-taxable earned income for EIC and CTC purposes. Military personnel may choose to count combat pay when calculating their eligibility for the EIC *if it is an advantage*. For example, adding combat pay to a family's other earnings might raise the family's total earned income above EIC eligibility levels, or the added income might reduce the amount of the EIC. Under these circumstances a family would not want to count the combat pay. But in families with little or no other income, counting combat pay is likely to result in a larger EIC. Combat pay counted for the EIC (or CTC) remains nontaxable income.

The treatment of combat pay also affects figuring eligibility for the CTC. Combat pay *must* be counted as income for the CTC. For the CTC, counting combat pay will *always* work to the family's advantage, enabling more military families to qualify.

Non-taxable military allowances for housing and subsistence — including meals and lodging furnished in-kind to personnel residing on military bases — are not considered earned income for EIC or CTC purposes. Such pay and allowances are indicated on W-2 forms, but are not added to regular wage income to calculate eligibility for the EIC. Veterans' benefits and military retirement pay are not considered earned income.

For further information on EIC and CTC rules for military personnel, see IRS Publication 3 "Armed Forces' Tax Guide."