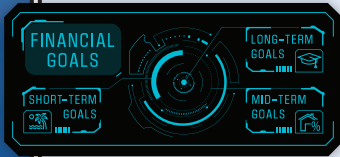


# ARMED FORCES FINANCIAL GUIDE

## MAPPING THE MILITARY LIFECYCLE



- Financial Basics

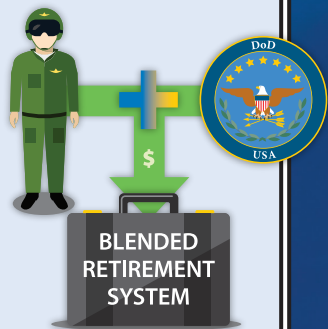
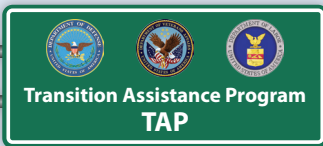


- Deployment



- Special Pay

- Transition and Retirement



- Service Benefits

VIRGINIA B. MORRIS

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# Special Benefits

Earning more in a combat zone is just the beginning of what deployment means for you.

If you serve in a designated combat area and receive Hostile Fire Pay (HFP) or Imminent Danger Pay (IDP), you're entitled to a **Combat Zone Tax Exclusion (CZTE)**. This tax exclusion applies to commissioned officers, who can exclude part, and enlisted personnel, who can exclude all, of their pay, bonuses, and incentive pay for this period.

If you reenlist in a combat zone, the incentive pay you receive is also tax-exempt. So is annual leave you accrue during deployment, at the same rate of 2.5 days per month. But you must use that leave within three years, and before other leave you already have.

## BUILDING RETIREMENT SAVINGS

When you're deployed to a combat zone, not only are your earnings tax-exempt, but the annual cap on contributions to a defined contribution retirement plan that normally applies is waived if you contribute to a tax-deferred account. This gives you an extraordinary opportunity to increase your contribution to your TSP or civilian account in the years you're eligible.

If you're part of the BRS and aren't already contributing 5% of your pay to qualify for the full DoD match, consider adding enough to meet that threshold. Another benefit is that the amount you contribute from this pay remains tax

exempt even when you withdraw it from your account any time after you turn 59½. That will increase the amount of retirement income you'll have to spend.

If you make your combat zone contribution to a traditional tax-deferred TSP account, the earnings portion of your withdrawal will be taxed. But you can avoid the tax on earnings by contributing your tax-exempt pay to a TSP Roth account up to the annual cap. Then anything you withdraw from the account in the future will be nontaxable, provided you're at least 59½ and the account has been open at least five years.

You can also deposit tax-free income in a Roth IRA in addition to amounts you add to your TSP account. Contributions and earnings are always nontaxable, including at withdrawal. Another benefit of a Roth IRA is that there are no mandatory withdrawals, allowing the account balance to continue to compound.

## SAVINGS DEPOSIT PROGRAM

If you are serving in a designated combat zone, the Savings Deposit Program (SDP) offers a major financial benefit you don't want to overlook. Money deposited in an SDP account pays an impressive 10% interest annually on deposits of up to \$10,000. The deposits are federally insured, and the \$10,000 cap applies separately to each deployment.



SDP is intended to help you build your financial savings. Since your cost of living generally decreases during deployment, depositing funds into an SDP account and earning such a high rate of interest is an unparalleled opportunity for improving your long-term financial security.

To be eligible for the SDP, you must be deployed in a designated combat zone for at least 30 consecutive days, or one day in three consecutive months, and be receiving Hostile Fire Pay or one of the following: Hardship Duty Pay, Imminent Danger Pay, Assignment Incentive Pay, or Hazardous Duty Pay.

## MANAGING YOUR SDP ACCOUNT

A military finance officer in your operating theatre can help you set up your SDP account. You can make deposits at the local pay office as cash or a check, or through payroll allotments, which may vary as your financial situation changes.

You can withdraw money from your SDP account through myPay. Once your account exceeds \$10,000, you can withdraw any funds over that amount on a quarterly basis, since they won't be eligible to earn 10% interest. You can also make emergency withdrawals with the approval of your commanding officer.

You cannot close the account until you have left the combat zone, and the

account balance will continue to earn 10% interest for 90 days after you've returned to your permanent duty station. After 120 days, the account will be closed, and your

account funds will be transferred electronically to the direct deposit account on record or to another account that you designate. You can also access your funds earlier through your myPay account, but the longer you can let your money collect the 10% interest, the more you'll earn.

## TAX ALERT

Unlike the CZTE-qualified money you earn while you're in a combat zone, the earnings in your SDP account are taxable. Since no federal or state taxes will have been withheld, you'll need to be prepared to pay tax on the full amount of these earnings when you file your return for the year. That's true whether or not you have withdrawn the earnings or they continue to compound.

## ADVICE? IT'S ESSENTIAL

If you don't customarily use a tax adviser experienced in military policy to prepare your income tax returns, it may be smart to do so when you have substantial incentive pay, a large bonus, or CZTE income. He or she should be able to advise you on how to take best advantage of provisions of the tax code. You can find free or low-cost advice through Military OneSource at [www.militaryonesource.mil/financial-legal/tax-resource-center/tax-services-benefits](http://www.militaryonesource.mil/financial-legal/tax-resource-center/tax-services-benefits). One caution: seek the advice before you make investment decisions, since some are difficult or expensive to undo.



## IT IS GOOD AND TRUE

To illustrate the true value of the SDP account and the guaranteed 10% interest it pays consider the following: most civilian savings accounts may pay less than 1% interest, with CDs paying somewhere between 2% and 2.5% interest. Since there's no risk of losing money, opening a SDP account is an opportunity you don't want to miss.

## Combat Zone Tax Exclusion (CZTE)

