



Reserve Component Tax Deductions for Soldiers and Employers

With increased responsibility and deployments since the end of the Cold War, reserve component readiness has become a serious matter for national security. The Army's greater reliance on reserve soldiers, especially after the 11 September 2001 attacks on the United States, has increased training missions and real-world operations for America's citizen-soldiers. Despite shouldering a greater load, reservists' financial well-being has been hindered by restrictions and oversights in the U.S. tax code.

Under the Tax Reform Act of 1986, reserve soldiers have had to pay for duty-related travel, lodging and food expenses out of pocket, with limited options for income tax deductions. Additionally, reservists' employers have received no reprieve from the federal government for costs incurred due to an employee's absence for military obligations.

In three bills submitted to the House of Representative (H.R.394, H.R.968 and H.R.3756) and two to the Senate (S.540, S.2802 and S.2816), proposals have been made to reform the issues of reserve tax credits, relief and assistance. For an element vital to the Army today and in the future, these beneficial revisions are long overdue and demand support.

Who's Affected?

The first group affected by the current tax code's limited deductions is the 873,000 drilling reservists from all the military services, 555,000 of whom are soldiers of the Army National Guard and Army Reserve.* Each of those men and women, whether traveling to monthly drill and training events or assigned to a remote location for duty, must cover the costs of plane tickets, hotels and meals associated with the deployment. Under current law, these significant expenses may not meet criteria for federal deductions.

The second group affected by the current tax laws is the businesses and organizations for whom these soldiers

work. The employers that reservists leave behind must contend with a potential myriad of problems that sudden vacancies present for the smooth day-to-day running of their businesses. The additional resources necessary to reroute tasks, temporarily replace employees and optimize efficiency among new teams can be substantial. Without some financial adjustment, the overall costs can be detrimental. If productivity should slip and prosperity should waver, the potential number of people affected by a reservist's absence could be immense.

Why Is Reform Needed?

The Tax Reform Act of 1986 has prevented Army National Guard and Army Reserve soldiers from deducting service-incurred travel, food and lodging costs from their annual taxes. Currently, those expenses are covered only if the itemized deductions total more than 2 percent of a soldier's adjusted gross income.

Reserve component downsizing has required many soldiers to join units in more distant locations, demanding longer commutes. Senior officers and noncommissioned officers often face little alternative to accepting leadership assignments further away from their homes to advance their careers. Specific Military Occupational Specialty (MOS) vacancies are sometimes limited within geographic areas, forcing soldiers either to retrain in another field or to select another unit. To put their skills or leadership qualifications to use, some soldiers have had to fly to drill duty stations several states away.

By extension, safety issues factor into the deductions problem as well. Many soldiers, faced with long drives to and from the drilling unit, will opt not to pay for an overnight hotel stay. Instead, to save money, they make the commute in one stretch without stopping. To avoid the costs of



lodging, some soldiers make the risky decision to drive long distances without proper rest.

The limitations on deductions tack an additional burden onto drilling reservists' priorities. The soldiers are concerned not only with their military missions, civilian careers and personal welfare, but also with mounting travel and lodging costs. The soldiers who would directly benefit from the deductions are the very ones who most need the money. They question whether their investment to their country is worth the money they are spending to fulfill training and mission requirements. These financial barriers to service weigh heavily on retention and recruiting efforts.

For employers, accommodating reservists who must leave their jobs for training and call-ups can cause substantial hardship. The special arrangements made to adjust to the employees' absences may include rescheduling, temporary hiring and retraining. Despite the established protections for reservists' jobs and the cooperation of patriotic employers, summoning soldiers for tours lasting anywhere from a few days to a year or more places a strain on the workplace.

For self-employed soldiers operating farms, home-based enterprises or a range of other small businesses, the effects of a call-up can be ruinous. Should family or friends not be able to take over, the reservist has little choice but to suspend the venture and endure a loss.

Longer and more frequent reserve component deployments can test employers' acquiescence to soldier needs at a cost to corporate viability. Potential employees'

reserve obligations may affect future hiring decisions. For self-employed troops, the decision may come down to a simple income comparison.

A tax credit for businesses that employ reserve soldiers would benefit reservists by relieving their employers of some of the financial strains created by extended periods of training and deployments.

What Should Be Done?

The Reserve Employment Tax Credit Act of 2001 (H.R.394), the Reservists Tax Relief Act of 2001 (H.R.968), the Reserve Component Tax Assistance Act of 2002 (H.R.3756), the Reserve Tax Assistance Act of 2001 (S.540), the Military Families Tax Fairness Act (S.2802) and the Foreign and Armed Services Tax Fairness Act of 2002 (S.2816) address the taxation problems reservists have faced since the passage of the 1986 Tax Reform Act. The passage of these bills would alleviate much of the load placed on America's citizen-soldiers and their obliging employers when these troops are serving.

These bills seek not only to revise the 1986 tax law, but allow employers an income tax credit of \$2,000 for each reserve employee (up to a total of \$7,500) for time spent on military duty. Similar measures are included for self-employed reservists. The proposals also revise the tax deductions reserve soldiers may claim for duty-related travel, lodging and food expenses.

* The International Institute for Strategic Studies, *The Military Balance* (London: Oxford University Press, 2001).

Key Points

- The Tax Reform Act of 1986 denied reservists tax deductions on travel, lodging and food expenses incurred while on duty and in transit. Unless the expenses claimed were greater than 2 percent of a soldier's adjusted gross income, federal guidelines prohibited qualifying them as deductions.
- Employers are obliged to accept their reservist employees' regular training leave and surprise deployments. The hardship caused by a sudden and sometimes long-term vacancy can strain a company's workload, proficiency and resources. Costs incurred to alleviate reserve soldiers' absences can be great. Temporary help, overtime, rescheduling and cross-training take time and money. The same is true of self-employed soldiers who leave their businesses when called to service.
- Three bills before the House of Representatives and two before the Senate directly address the concerns of Army Reserve and Army National Guard soldiers affected by the 1986 tax code. These measures also encourage a tax credit for employers who must endure the financial strains caused by reservist employees' absences. AUSA supports legislation providing tax relief for reserve component soldiers and tax credits for their employers. The Reserve Employment Tax Credit Act of 2001 (H.R.394), Reservists Tax Relief Act of 2001 (H.R.968), the Reserve Component Tax Assistance Act of 2002 (H.R.3756), Reserve Tax Assistance Act (S.540), Military Families Tax Fairness Act (S.2802) and the Foreign and Armed Services Tax Fairness Act of 2002 (S.2816) provide reservists and their employers with incentives for continued service and commitment. AUSA endorses these proposals. For more information, see <http://www.ausa.org/legislation>.