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# Defense Report

AUSA



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## **Tax Relief on Military Pay – Would It Help or Hinder?**

Ever since World War II, when all military pay was excluded from federal income taxes, there has been a lingering notion that those who serve our country in uniform are not taxpayers. Of course, this is not true. With the exception of some special exemptions for the people serving in the combat zones of Korea and Vietnam, military base pay is taxed just like civilian salaries. If nothing else, taxing military pay maintains the bond between our citizen soldiers and the people of the nation they serve. It also returns several billion dollars each year to the Treasury.

We are all aware that our military services are having a difficult time recruiting good people and then keeping them in uniform after they are trained. The constant loss of skilled personnel creates a double drain on our defense establishment. It forces us to train an excessive number of new people every year and the turnover tends to lower the level of combat readiness in units of all kinds. This is a predicament that has been growing more apparent each year since the institution of the all-volunteer force in 1972. Promises from Congress and from a succession of administrations that the volunteer concept would be adequately supported with needed incentives simply have not been met.

Now, from the new Secretary of Defense, we hear a proposal to exempt the first \$20,000 of service pay from federal income taxes to help keep people in the ranks. At first blush this seems to be a pretty good idea, but a closer look shows some major blemishes. The first, and most serious, is the fact that it would not be of much help for the junior service members who, because of low pay and family exemptions, are not paying very much income tax anyway. The advantage of tax exemption grows greater as rank and pay increase so the senior people would benefit most. Certainly the tax exemption would help the middle-grade people we must retain, but it would not help them nearly so much as it would the senior people who are already committed to serving through a full career.

Exempting the first \$20,000 of military pay from taxation would reduce the government's income by some \$3 billion without providing an effective improvement to the income of those service members who need it most. That amount spent on our personnel support programs would be more effective. The exemption would also build another barrier between the citizens who serve in uniform and those who pay their taxes but choose not to serve as volunteers.

There are many other ways in which we could improve both recruiting and retention without further separating those who serve from those who do not.