
Defense Report

AUSA



Now its the IRS Who Squeezes the Serviceman—Cost Cutting Rules over Common Sense

When military personnel are assigned to an installation that lacks sufficient government-owned housing or when they are assigned duty which is not close to a military base, they must rent or buy homes on the civilian market. For years this meant a large percentage of the nation's military personnel had to dig into their own pockets to make up the difference between their housing allowances and the actual cost of keeping a roof over their heads. When Congress approved a variable housing allowance in 1980, it was heralded as a blessing by both renters and buyers because it provided some relief from another out-of-pocket expense for military families.

For military homeowners, the relief may be short-lived. The Internal Revenue Service has proposed regulations that would reduce mortgage interest tax deductions taken by military personnel purchasing homes. Since the quarters allowances are nontaxable, the IRS wants to offset the tax deductions of home mortgages and property taxes by the amount of those military tax-free allowances now being used by our service personnel to buy homes.

Such an action would cause about 272,000 military homeowners to suffer a four to seven percent reduction in purchasing power. Those most affected by this major compensation change are the officer and enlisted career people—the very people in whom we have the greatest investment in training and on whom we place the greatest reliance for maintaining the readiness and effectiveness of our all-volunteer force.

The treasury stands to gain about \$350 million by reversing the tax exempt status of military housing allowances. The restoration of comparable take-home pay would cost about \$1.1 billion because pay increases would have to be made across the board and not on an individual basis.

Playing games with service member's pay is no way to keep the services competitive in recruiting and retaining high-quality people. The disallowance of the deduction for homeowner expense, if permitted, would have a negative impact on morale and retention. Any action that affects a service member's pay removes yet another incentive to wear the uniform.