

# Defense Report

from the Institute of Land Warfare



## A COSTLY OVERSIGHT

America's military men and women face an additional combined income tax bill for 1994 of at least \$70 million as the result of an obscure provision in the Revenue Reconciliation Act of 1993.

The provision in question, which apparently slipped by unnoticed, will no longer exempt from taxes relocation allowances designed to help defray the costs incurred as military personnel move from one duty station to another. Gone are the exemptions for:

Temporary Lodging Expense — covering hotel expenses for those awaiting housing in the United States;

Temporary Lodging Allowance — covering hotel expenses for those awaiting housing overseas;

Dislocation Allowance — covering incidental moving costs;

Move-In Housing Allowance — covering one-time rent, security and miscellaneous expenses overseas;

Per diem for meals during the move and government-paid storage of personal items.

As a result, some service members who are ordered to move this year could owe so much tax they may also face penalties for not having enough taxes withheld from their paychecks.

Consider that of the more than 800,000 service members and their families who move every year (and who have little or no choice about when or where they move), almost 200,000 move to or from overseas locations. Almost 90 percent of these overseas moves are required of the youngest and lowest paid — the lower- and middle-level enlisted ranks.

According to the Internal Revenue Code of 1986, "The origin of the tax advantage given to military personnel can be traced to a 1925 decision of the United States Court of Claims that held that neither the provision of certain items in kind to armed forces personnel, nor the payment of an allowance in commutation thereof, was subject to Federal Income taxation under the precursor of the present-day Internal Revenue Code." Temporary Lodging Expense, Temporary Lodging Allowance, Dislocation Allowance, Move-In Housing Allowance, per diem and storage during moves meet this test.

In an economic environment where America's military services must struggle to maintain operational readiness and meet their diversified missions with dwindling resources, this oversight has the potential to become costly to more than the rank and file military members who will have to bear the increased tax burden; it has the potential to adversely affect morale, retention and recruiting, and, as a result, readiness.

The men and women who make up the world's finest fighting force are the brightest, best educated and most disciplined in our history. This nation has a moral obligation to maintain an acceptable quality of life for those who provide for our national security. Not one of America's soldiers, marines, sailors or airmen should be forced to suffer a moment's anxiety over inequitable financial burdens from taxation of moving allowances.

Long-term relief from this inequity must be accomplished in the form of straightforward action rather than by complicated and bureaucratic interim fixes. Congress must act — and act now — to restore the special tax exemptions necessary to ensure that our military personnel do not suffer serious financial consequences from which they have no recourse.

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