

Defense Report

from AUSA's Institute of Land Warfare



VIGILANCE: CRITICAL AT ALL LEVELS

An imprecise interpretation of an obscure provision in the Omnibus Reconciliation Act of 1993 could have cost America's military men and women an additional combined income tax bill for 1994 of at least \$70 million.

The interpretation suggested that the relocation allowances designed to help defray the costs incurred by military personnel when they move from one duty station to another would no longer be exempted from taxes. The affected allowances included:

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.

Had the error not been recognized and corrected administratively by the Internal Revenue Service, some servicemembers could have owed so much tax they may have also faced penalties for not having enough money withheld from their paychecks.

The events leading up to what could have been unnecessary and potentially severe financial hardship for thousands of America's military personnel are an example of bureaucratic inattention at its worst. The Omnibus Budget Recon-

ciliation Act of 1993 amended a provision of the Internal Revenue Code to limit the definition of deductible moving expenses. This amendment was interpreted by the Armed Forces Tax Council to mean that relocation allowances were now to be considered taxable income.

As news of the "change in tax laws" spread, its adverse effect on service personnel alarmed officials at all levels. The Secretary of Defense sent a letter to Congress requesting legislative relief. Defense officials had to develop complicated fixes, such as increasing moving allowances to offset the new taxes, or having DoD pay the taxes for the servicemembers. Military-related organizations, including AUSA, expressed concern in letters to members of Congress. Some lawmakers on Capitol Hill began to develop strategies for moving a solution quickly through Congress.

But worst of all, the morale of American soldiers, marines, sailors, airmen and their families was adversely affected as they received the faulty information.

In early June, the Internal Revenue Service announced that it intended to issue guidance that the tax-exempt status of moving allowances for military personnel **was in no way, nor was it ever intended to be, affected by the Omnibus Budget Reconciliation Act of 1993.**

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

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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. This means that officials at all levels and in all agencies, particularly those who are charged with monitoring changes in regulations that affect military personnel, have a grave responsibility to exercise due care and diligence in performing their functions. Not one American serviceman or woman should have to suffer a moment's anxiety as the result of inaccurate determinations.

The business of national defense and taking care of our servicemen and women has never been more serious. The staffs charged with monitoring the effects of regulations and proposed and enacted legislation, must continuously and accurately measure their consequences for servicemembers. As America's armed forces stand trained and ready to protect and defend this nation, so must support agencies and staffs maintain the vigilance necessary to take care of our military men and women.

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