



Department of Defense

INSTRUCTION

NUMBER 1340.25
September 28, 2010

USD(P&R)

SUBJECT: Combat Zone Tax Exclusion (CZTE)

References: See Enclosure 1

1. PURPOSE. In accordance with the authority in DoD Directive 5124.02 (Reference (a)), this Instruction establishes policy, assigns responsibilities, and provides procedures governing the designation of areas in which members of the U.S. Armed Forces are eligible for the CZTE, and the periodic review of such designations.

2. APPLICABILITY. This Instruction applies to OSD, the Military Departments (including the Coast Guard at all times, including when it is a Service in the Department of Homeland Security by agreement with that Department), the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense, the Defense Agencies, the DoD Field Activities, and all other organizational entities within the Department of Defense (hereafter referred to collectively as the “DoD Components”).

3. DEFINITIONS. See Glossary.

4. POLICY. It is DoD policy that:
 - a. A member of the U.S. Armed Forces (hereafter Armed Forces) may be eligible for the CZTE in accordance with section 112 of title 26, United States Code (U.S.C.); section 1.112-1 of title 26, Code of Federal Regulations (CFR); Public Laws 104-117 and 106-21; and chapter 44 of Volume 7A of DoD 7000.14-R (References (b) through (f), respectively).

 - b. A member of the Armed Forces is entitled to the CZTE if for any period during a calendar month the member performs active service in:
 - (1) A combat zone (CZ) designated by the President in an executive order; such executive order shall be listed in chapter 44 of Reference (f);

(2) A qualified hazardous duty area (QHDA) designated by Congress in accordance with References (d) and (e), is treated as if it were a CZ (in accordance with Reference (b)), provided a member is also entitled to hostile fire pay or imminent danger pay (HFP/IDP) in accordance with section 310 of title 37, U.S.C. (Reference (g)); or

(3) An area outside the CZ or QHDA when the Principal Deputy Under Secretary of Defense for Personnel and Readiness (PDUSD(P&R)) certifies that such military service is in direct support of military operations in a CZ or QHDA, as applicable, and the member is entitled to HFP/IDP (References (c) through (f)). The HFP/IDP entitlement must be directly related to military operations in the CZ or QHDA.

c. For purposes of Federal income tax, the gross income of an Armed Forces member, as indicated in paragraphs 1.c.(1) and (2) of this Instruction, does not include military compensation (References (b) and (c)) earned for active service (Sections 101(20) and 204 of Reference (g)) performed during any part of a month in which a member is entitled to CZTE. Specifically, the amount of military compensation excluded from gross income during an entitlement month is as follows:

(1) All earned military compensation for enlisted members and warrant officers (Reference (b)). Warrant officers are not commissioned officers for purposes of CZTE.

(2) For commissioned officers, earned military compensation up to the highest rate of monthly enlisted basic pay payable for a senior enlisted member serving as Sergeant Major of the Army or Marine Corps; Master Chief Petty Officer of the Navy or Coast Guard; Chief Master Sergeant of the Air Force; and Senior Enlisted Advisor of the Chairman of the Joint Chiefs of Staff (grade E-9) regardless of years of service (Reference (b)), plus the monthly amount of HFP/IDP payable under section 310 of Reference (g).

d. Members who are absent from a CZ, QHDA, or direct support duty assignment due to a wound, injury, disease, prisoner or missing status, or other lawful cause, such as official leave, temporary duty or temporary additional duty (TDY/TAD), may be subject to paragraph 1.e of this enclosure.

e. An Armed Forces member who is hospitalized or re-hospitalized as a result of a wound, injury, or disease incurred while serving in a CZ or QHDA, or in direct support of military operations in a CZ, is entitled to CZTE until the member's status as a hospital inpatient ceases by reason of discharge from the hospital. This entitlement may not apply to any month beginning more than 2 years after the date of termination of combatant activities in the CZ or QHDA.

f. Income tax liability is forgiven for a member who dies in a combat zone, or as a result of injuries incurred in a combat zone, for the year of death as well as any prior tax year ending on or after the member's first day of service in a combat zone. Additionally, unpaid taxes still due at the time of death, for years prior to service in the combat zone, will also be forgiven.

g. Military basic pay earned for services performed in a CZ, QHDA, or in direct support of a CZ or QHDA, while excluded from Federal income tax withholding under Reference (b),

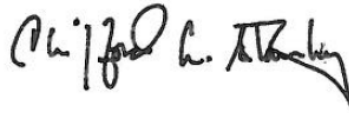
remains subject to deduction for social security tax and Medicare tax. Although the State in which a member claims legal residence may tax military compensation earned in the CZ or QHDA, no state income taxes will be deducted by the Department of Defense. The Armed Forces member is responsible for paying any State tax liabilities on such military compensation.

5. RESPONSIBILITIES. See Enclosure 2.

6. PROCEDURES. Enclosure 3 contains procedures for the administration of CZTE and describes the circumstances under which a member of the Armed Forces is eligible for CZTE.

7. RELEASABILITY. UNLIMITED. This Instruction is approved for public release and is available on the Internet from the DoD Issuances Website at <http://www.dtic.mil/whs/directives>.

8. EFFECTIVE DATE. This Instruction is effective immediately.



Clifford L. Stanley
Under Secretary of Defense
for Personnel and Readiness

Enclosures

1. References
 2. Responsibilities
 3. CZTE Entitlement and Review
 4. Review of Areas Designated for CZTE
- Glossary

ENCLOSURE 1

REFERENCES

- (a) DoD Directive 5124.02, "Under Secretary of Defense for Personnel and Readiness (USD(P&R))," June 23, 2008
- (b) Section 112 of title 26, United States Code
- (c) Section 1.112-1 of title 26, Code of Federal Regulations
- (d) Public Law 104-117, "Treatment of Certain Individuals Performing Services in Certain Hazardous Duty Areas," March 20, 1996
- (e) Public Law 106-21, "Availability of Certain Tax Benefits for Services as Part of Operation ALLIED FORCE," April 19, 1999
- (f) DoD 7000.14-R, "Department of Defense Financial Management Regulations (FMRs)," Volume 7A, "Military Pay Policy and Procedures-Active Duty and Reserve Pay," as amended
- (g) Sections 101, 204, and 310 of title 37, United States Code
- (h) Joint Publication 1-02, "Department of Defense Dictionary of Military and Associated Terms," current edition

ENCLOSURE 2

RESPONSIBILITIES

1. PDUSD(P&R). The PDUSD(P&R), under the authority, direction, and control of the Under Secretary of Defense for Personnel and Readiness, shall:

- a. Serve as the decision maker for CZTE determinations.
- b. Oversee the development and implementation of CZTE policy and develop related procedures for administration of such policies.
- c. Review and evaluate requests for CZTE area designations forwarded by the Chairman of the Joint Chiefs of Staff. Make appropriate certifications regarding CZTE direct support requests.
- d. Establish guidance and procedures for conducting the periodic review of CZTE area designations and certifications.
- e. Request changes be made to the DoD 7000.14-R (Reference (f)) to implement CZTE determinations, as necessary.

2. ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS (ASD(ISA)), ASSISTANT SECRETARY OF DEFENSE FOR HOMELAND SECURITY AND AMERICA'S SECURITY AFFAIRS (ASD(HD&ASA)), AND THE ASSISTANT SECRETARY OF DEFENSE FOR ASIAN AND PACIFIC AFFAIRS (ASD(APSA)). The ASD(ISA), ASD(HD&ASA), and ASD(APSA), all under the authority, direction, and control of the Under Secretary of Defense for Policy, shall, as applicable, review and provide a politico-military analysis of direct support requests.

3. SECRETARIES OF THE MILITARY DEPARTMENTS. The Secretaries of the Military Departments shall oversee implementation of this Instruction in their respective Departments.

4. CHAIRMAN OF THE JOINT CHIEFS OF STAFF. The Chairman of the Joint Chiefs of Staff shall:

- a. Evaluate, in coordination with the Military Departments, all geographic Combatant Commander requests for CZTE direct support certifications.
- b. Ensure Geographic Combatant Commanders submit the PDUSD(P&R) determinations of fact and requested periodic reviews (Enclosures 3 and 4) for designated CZ, QHDA, and certified direct support areas. Based on these determinations and reviews, the Chairman of the

Joint Chiefs of Staff shall make appropriate recommendations to PDUSD(P&R) on the initiation, continuation, modification, or termination of such designations or certifications.

5. COMMANDERS OF THE GEOGRAPHIC COMBATANT COMMANDS. The Commanders of the geographic Combatant Commands shall:

a. Submit to the PDUSD(P&R), through the Chairman of the Joint Chiefs of Staff, all requests for CZTE direct support certifications, with relevant determinations of fact (see Enclosures 3 and 4).

b. Submit to the Chairman of the Joint Chiefs of Staff periodic determinations of fact for CZ, QHDA, and direct support areas recommending initiation, continuation, modification, or termination of CZTE designations or certifications for such areas.

ENCLOSURE 3

CZTE ENTITLEMENT AND REVIEW

1. DETERMINATIONS OF FACT

a. CZ or QHDA. An Armed Forces member is entitled to CZTE for an entire month for any portion of a month in which the member performs active service in a CZ or QHDA, consistent with paragraph 4.b above the signature of this Instruction.

(1) Active service in a CZ or QHDA, as defined under section 101(20) of Reference (g), includes, but is not limited to:

(a) A member's absence from a duty assignment in the CZ or QHDA due to a wound, injury, disease, internment by the enemy, or other lawful cause, such as official leave or TDY/TAD. However, in instances when the member's absence from the CZ or QHDA for official leave or temporary duty/temporary additional duty (TDY/TAD) extends over a period which includes a full calendar month, the tax exclusion may not be allowed for that full calendar month.

(b) A member's performance of official TDY/TAD in the CZ or QHDA, even if only for a brief period. However, a member who passes over or through the CZ or QHDA designated airspace during the course of a trip between two points, both of which may lie outside the CZ or QHDA, is entitled to CZTE only if the member is assigned to perform duty in the designated airspace of the CZ or QHDA or qualifies for HFP/IDP as a result of the flight.

(c) A member's absence from a duty assignment in the CZ or QHDA as a result of becoming a prisoner of war (POW) or missing in action (MIA). The member is deemed to continue in active service in the CZ or QHDA for the period in which the member remains in such status for military pay purposes.

(2) Active service in the CZ or QHDA does not include:

(a) A member who is in the CZ or QHDA on leave from a duty station outside the CZ or QHDA.

(b) A member who is in the CZ or QHDA solely for the member's personal convenience.

(c) A member who is in the CZ or QHDA while "in transit" by any means (including vessel, aircraft, and land conveyance) and is not assigned to the CZ or QHDA.

b. Direct Support. An Armed Forces member is entitled to CZTE for an entire month for any portion of a month in which the member performs active service certified by the

PDUSD(P&R) as in direct support of military operations in a CZ or QHDA (References (c) and (f)).

(1) Service may be certified in direct support if the member:

(a) Performs active service that maintains, upholds, or provides direct assistance for those involved in military operations in the CZ or QHDA;

(b) Qualifies for HFP/IDP during that month; and,

(2) Examples of members' service considered in direct support of military operations in the CZ or QHDA are:

(a) Members who render services on a supply vessel transporting necessary supplies to a CZ or QHDA.

(b) Members who operate, load, or maintain aircraft and who maintain and control the airstrip used to transport supplies and personnel from a nearby country outside the CZ or QHDA to a location within the CZ or QHDA.

(c) Members who are absent from a direct support duty assignment due to a wound, injury, disease, prisoner of war (POW) or missing in action (MIA) status, or other lawful cause, such as official leave or TDY/TAD, consistent with subparagraph 1.a.(1) of this enclosure.

2. UNIT COMMANDER CZTE DIRECT SUPPORT CERTIFICATION REQUESTS

a. Requests for direct support certification shall be submitted through the geographic Combatant Command and the Chairman of the Joint Chiefs of Staff to the PDUSD(P&R) on behalf of members who perform active service that directly maintains, upholds, or provides assistance for those involved in military operations in a CZ or QHDA. Requests for direct support certification shall include:

(1) The unit commander's delineation of the scope of the direct support area proposed for certification, limited to the smallest geographical area (e.g., portions of countries or seas) in which direct assistance is provided for those involved in military operations in the CZ or QHDA, to include the most current CZTE determination of fact prepared consistent with section 1 of this enclosure.

(2) The most current review of areas designated for CZTE, prepared in accordance with Enclosure 4.

(3) The geographic Combatant Commander's recommendation.

(4) Chairman of the Joint Chiefs of Staff's recommendation regarding the request, as coordinated with the Secretaries of the Military Departments.

b. The PDUSD(P&R) shall review the request and the politico-military analysis of the ASD(ISA), the ASD(HD&ASA), or the ASD(APSA), as applicable. If the direct support request is approved:

(1) The PDUSD(P&R), in coordination with the Chairman of the Joint Chiefs of Staff and the ASD(ISA), ASD(HD&ASA), or the ASD(APSA), as applicable, shall determine the final parameters and effective date of the direct support certification.

(2) The PDUSD(P&R) shall terminate the direct support certification when circumstances no longer warrant the continuation of such certification. Normally, a direct support certification remains in effect until terminated either as a result of the recommendations of the Chairman of the Joint Chiefs of Staff or a periodic review.

3. TERMINATION OF CZ OR QHDA DESIGNATIONS. The PDUSD(P&R) shall process and forward a recommendation through appropriate channels (e.g., the Office of Management and Budget, for executive orders) when CZ or QHDA designations are no longer warranted.

4. REVIEW OF CZ, QHDA, AND DIRECT SUPPORT AREAS. Commanders shall establish procedures for the review of CZTE areas to ensure continued certification is warranted. If at any time a certification is no longer warranted, such commander shall advise the Chairman of the Joint Chiefs of Staff, who shall then review the situation and forward the appropriate recommendation to the PDUSD(P&R). At the periodic request of the PDUSD(P&R) through the Chairman of the Joint Chiefs of Staff, the commander shall complete a review, by answering the questions at Enclosure 4 of this Instruction, which shall be forwarded to the Chairman of the Joint Chiefs of Staff for consideration.

5. PUBLICATION. CZ designations by the President, QHDA designations by Congress, and direct support certifications by the PDUSD(P&R) for CZTE purposes shall be published in chapter 44 of Reference (f).

ENCLOSURE 4

DoD REVIEW OF AREAS DESIGNATED FOR CZTE

Table. CZTE Application

Instructions to Geographic Combatant Commanders: All of the following questions must be answered. Please provide a narrative on a separate sheet for all answers.

1. Name of Area (Country, Province, City, Place).
2. Date of Submission.
3. Approximately how many U.S. Armed Forces Members are deployed in the area concerned?
4. Approximately how many U.S. Armed Forces Members are permanently assigned in the area concerned?
5. Approximately how many command sponsored dependents are presently authorized in the area?
6. Do military members serve in a Combat Zone (CZ) or Qualified Hazardous Duty Area (QHDA) or directly support military operations in a CZ or QHDA? If so, how?
7. Are military operations confined to a specific area?
8. Has the level of support for military operations in the CZ or QHDA changed since the initial designation/certification? If so, how?
9. Has the size and composition of the military force changed?
10. Describe other conditions or factors in the area that contribute to the nature of the military operations in the area. Provide rationale for any other anomalies.
11. Do members qualify for hostile fire pay or imminent danger pay (HFP/IDP) for service in this area?
12. Is the reason for paying HFP/IDP based on risks or dangers related to the CZ or QHDA? If so, how is the risk/danger related to the CZ or QHDA?

AUTHORIZED SIGNATURE:

Geographic Combatant Commander

GLOSSARY

PART 1. ABBREVIATIONS AND ACRONYMS

ASD(APSA)	Assistant Secretary of Defense for Asian and Pacific Affairs
ASD(ISA)	Assistant Secretary of Defense for International Security Affairs
ASD(HD&ASA)	Assistant Secretary of Defense for Homeland Security and America's Security Affairs
CFR	Code of Federal Regulations
CZ	combat zone
CZTE	combat zone tax exclusion
HFP/IDP	hostile fire pay or imminent danger pay
MIA	missing in action
PDUSD(P&R)	Principal Deputy Under Secretary of Defense for Personnel and Readiness
POW	prisoner of war
QHDA	qualified hazardous duty area
TDY/TAD	temporary duty or temporary additional duty
U.S.C.	United States Code

PART 2. DEFINITIONS

These terms and their definitions are for the purpose of this Instruction:

active duty. Full-time duty in the active service of a uniformed service, and includes full-time training duty, annual training duty, full-time National Guard duty, and attendance, while in the active service, at a school designated as a service school by law or by the Secretary concerned.

active service. Service on active duty.

certification. A PDUSD(P&R) action in response to a unit commander's direct support request.

CZ. An area the President of the United States designates by executive order in accordance with section 112 of Reference (b), as an area in which U.S. Armed Forces are or have engaged in combat. In this context, the CZ is generally designated in response to a national emergency and involves persistent, violent confrontations with hostile forces. Usually, an area becomes a CZ or ceases to be a CZ on the dates the President designates by Executive order.

CZTE. The exclusion, for Federal income tax purposes, from gross income of military compensation of members of the Armed Forces earned for active service performed in a CZ, QHDA, or direct support areas.

CZTE area. A CZ, QHDA, or direct support area.

direct support area. An area outside the CZ or QHDA in which Armed Forces members may be eligible for CZTE based on the performance of active service that maintains, upholds, or provides direct assistance for those involved in military operations in the CZ or QHDA, and that such service qualifies the member for HFP/IDP. Direct support areas must be certified by the PDUSD(P&R).

gross income. All income from whatever source derived, unless excluded by law.

military compensation. Compensation paid by the Armed Forces of the United States to members of the Armed Forces. It does not include pensions and retirement pay.

military operation. A military action that may involve carrying out a strategic, operational, or tactical mission against a hostile or unfriendly force, to include carrying on combat and any related movement, supply, attack, defense, and maneuvers needed to gain the objectives of a battle or campaign.

QHDA. A congressionally designated area treated in the same manner as a CZ under Reference (b) for Armed Forces members performing service in such areas, provided a member is entitled to pay in accordance with section 310 of Reference (g).

U.S. Armed Forces. The Army, Navy, Air Force, Marine Corps, and Coast Guard.