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Sent: Wednesday, November 21, 2018 8:18 AM
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Subject: FW: Veteran Tax Information Regulation attached
Attachments: IRS 525 Tax Refund.pdf

Classification: UNCLASSIFIED
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FYI...

From: Littleton Melissa D DIA ADI1 USA CTR
Sent: Thursday, November 08, 2018 11:29 AM
Subject: Veteran Tax Information
Importance: High

Classification: UNCLASSIFIED
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It's Melissa from down the street at the LREC (Bldg 351). I'm racking my brain to contact as many veterans as possible. I wanted to let you know both because you're retired and because you deal with veterans here at the agency.

Basically our disability pay is not taxed but most veteran's don't know their **retirement pay** – if they have a rating 20% and higher- should not be fully taxed!

Let's say a veteran receives 70% disability; only 30% of their **retirement pay** should have been taxed so they get that money back! Since this decreases the taxable income the veteran receives a refund on both state and federal side. Unfortunately it's only retroactive for tax year 2015-2017 but that's money we didn't expect, right?

I used my case as the example and I just had money deposited from *Department of Treasury*. When it's all said and done I will receive $11,000...others have received more.....$13K, $17K, $24K that I know of personally.

I'm gonna forward the regulation to you from my gmail. It pisses me off that it's not publicized more. It's sad that if no one tells veterans about benefits we miss out. There should be a mechanism that keeps us informed. Anyway, I'm trying to do my part so I'm "hey you-ing" people in training down here, people at the PX and commissary even knocking on doors in my neighborhood where I know there are retirees. Every veteran I've spoken to did not know and every other one automatically thinks they don't qualify. The only prerequisite is to be retired and above 20%.

Call me if you have questions. I'm gonna be out of office in the next few weeks for about a month convalescing. Please reach out any time prior to Thanksgiving. The accountant I used to prepare my claim and the one who is in constant contact with the IRS is Donna Hill.....a civilian not connected to the government but an advocate for veterans. Her contact information is included in the email I will send you shortly.

God Bless,

Melissa D. Littleton

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Bottom line up front (BLUF): If you are retired and receiving above 20% disability rating from the VA you have a tax refund due to you. I went through the process and within a month I had $11K deposited to my account direct from the Department of Treasury.

In 2016 the Department of Treasury updated IRS Publication 525 (specifically pages 17-19) which explains how retired veterans with a VA rating above 20% can recoup money deducted from their retirement pay. You can either google the publication or go to the IRS website https://www.irs.gov/pub/irs-pdf/p525.pdf. I will add the main points below but encourage you to either talk to my POC, **Donna Hill**, or contact your accountant or whomever prepared your taxes. Donna's office number is 301-396-4817 and her cell is 301-379-3608. She's closed Monday and Tuesdays; and offers weekend appointments – Saturday and Sunday- to accommodate our schedule. Here's what you need to know:

-You should already know your disability pay should not be taxed.
-If you are retired and receiving 20% or more in disability pay, your retirement pay should not have been taxed at the standard rate.
-As an example: A retired veteran with a 70% rating should only have 30% of their retirement pay taxed.
-A retired veteran with a 90% rating should only have 10% of their retirement pay taxed.
-You are entitled to recoup that overage according to IRS Publication 525.
-The amount of your refund depends on your individual rating and of course your gross retirement pay.
-The statute of limitations is three years. Accountants can only go back to tax years 2015, 2016, and 2017.
- Adjustments MUST be mailed in and not electronically filed.
-State refunds will be faster than federal. I mailed mine Oct 9th. State funds were deposited to my account Oct 30th. Federal funds were deposited Nov 6th.
-Veterans will also receive interest on the money from those tax years.
-Provide your accountant or Donna with copies of your previous tax years (2015, 2016 and 2017); and a copy of the letter stating your VA rating. This can be found on eBenefits at https://www.ebenefits.va.gov/ebenefits/homepage. Once logged on go to Manage tab at the top of the page > Documents and Records > VA Letter > Benefit Verification.
- This is not a scam.

-Our refund is sanctioned through the IRS under IRS Publication 525 specifically pages 17-19.

- For the tax year 2018, and each one going forward, we are required to add the letter verifying your rating and mail the return to the IRS. That's right, every year going forward retired veterans should get a return.
-A question was asked in the benefits briefing if HR Block or other tax prep companies know about this. Donna (the accountant and speaker) said when she calls the IRS she is told she is among very few accountants calling to inquire about this benefit for veterans.
-I've given this information to several Veterans but several tax preparers are telling the Veteran they don't qualify. Please don't believe them!!!! Again, the prerequisite is retired and above 20%.
-I'm not the expert but I have benefited because of the knowledge of Accountant Donna Hill. I listed her numbers above. If you have questions, please reach out to her.

I want to stress that I know this sounds too good to be true but it is. Don't automatically think you don't qualify, don't allow preparer who are not versed in IRS Pub 525 to tell you that you don't qualify and please don't leave this money on the table.

PLEASE PAY IT FORWARD by passing this on to all Veterans (retired and separated) and those about to retire so they know about this benefit.

MAY GOD CONTINUE TO BLESS YOU ALL

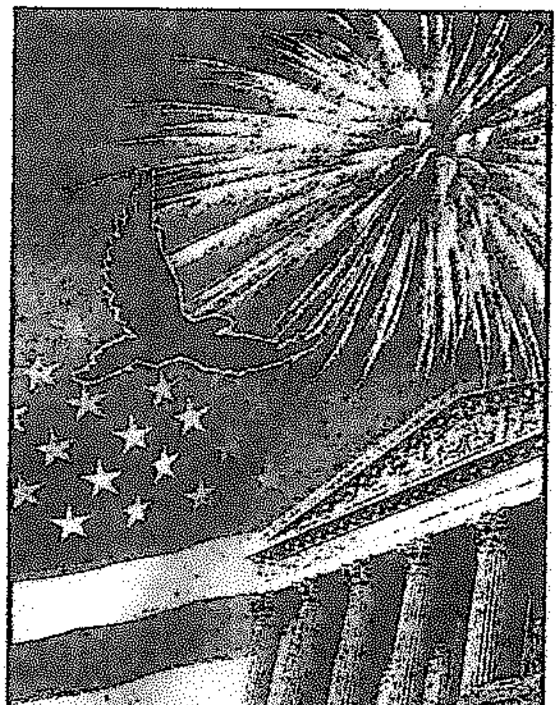
Department of the Treasury
Internal Revenue Service

Publication 525
Cat. No. 15047D

Taxable and Nontaxable Income

For use in preparing

2017 Returns



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Jan 16, 2018

Contents

Future Developments

For the latest information about developments related to Publication 525, such as legislation enacted after it was published, go to *IRS.gov/Pub525*.

What's New

Disaster tax relief. Disaster tax relief was enacted for those impacted by Hurricanes Harvey, Irma, and Maria. See Pub. 976, Disaster Relief, for details.

Access your online account. You must authenticate your identity. To securely log in to your federal tax account, go to *IRS.gov/Account*. View the amount you owe, review 18 months of payment history, access online payment options, and create or modify an online payment agreement. You can also access your tax records online.

Health flexible spending arrangements (health FSAs) under cafeteria plans. For tax years beginning in 2017, the dollar limitation under section 125(i) on voluntary employee salary reductions for contributions to health flexible spending arrangements is $2,600.

Reminders

Achieving a Better Life Experience (ABLE) account. This is a new type of savings account for individuals with disabilities and their families. Distributions are tax-free if used to pay the beneficiary's qualified disability expenses. See Pub. 907 for more information.

Public safety officers. A spouse, former spouse, and child of a public safety officer killed in the line of duty can exclude from gross income survivor benefits received from a interests in the venture. For further information on how to make the election and which schedule(s) to file, see the instructions for your individual tax return.

S Corporation Income

In most cases, an S corporation doesn't pay tax on its income. Instead, the income, losses, deductions, and credits of the corporation are passed through to the shareholders based on each shareholder's *pro rata* share. You must report your share of these items on your return. In most cases, the items passed through to you will increase or decrease the basis of your S corporation stock as appropriate.

S corporation return. An S corporation must file a return on Form 1120S. This shows the results of the corporation's operations for its tax year and the items of income, losses, deductions, or credits that affect the shareholders' individual income tax returns.

Schedule K-1 (Form 1120S). You should receive a copy of Schedule K-1 (Form 1120S) from any S corporation in which you are a shareholder. Schedule K-1 shows your share of income, losses, deductions, and credits for the tax year. Keep Schedule K-1 for your records. Do not attach it to your Form 1040, unless you are specifically required to do so.

Shareholder's return. Your distributive share of the items of income, losses, deductions, or credits of the S corporation must be shown separately on your Form 1040. The character of these items generally is the same as if you had realized or incurred them personally.

TIP *In many cases, Schedule K-1 (Form 1120S) will tell you where to report an item of income on your individual return.*

Distributions. In most cases, S corporation distributions are a nontaxable return of your basis in the corporation stock. However, in certain cases, part of the distributions may be taxable as a dividend, or as a long-term or short-term capital gain, or as both. The corporation's distributions may be in the form of cash or property.

More information. For more information, see the Instructions for Form 1120S.

Sickness and Injury Benefits

In most cases, you must report as income any amount you receive for personal injury or sickness through an accident or health plan that is paid for by your employer. If both you and your employer pay for the plan, only the amount you receive that is due to your employer's payments is reported as income. However, certain payments may not be taxable to you. For information on nontaxable payments, see *Military and Government Disability Pensions* and *Other Sickness and Injury Benefits*, later in this discussion.

TIP *Do not report as income any amounts paid to reimburse you for medical expenses you incurred after the plan was established.*

Cost paid by you. If you pay the entire cost of an accident or health plan, don't include any amounts you receive from the plan for personal injury or sickness as income on your tax return. If your plan reimbursed you for medical expenses you deducted in an earlier year, you may have to include some, or all, of the reimbursement in your income. See *Recoveries* under *Miscellaneous Income*, later.

Cafeteria plans. In most cases, if you are covered by an accident or health insurance plan through a cafeteria plan, and the amount of the insurance premiums wasn't included in your income, you aren't considered to have paid the premiums and you must include any benefits you receive in your income. If the amount of the premiums was included in your income, you are considered to have paid the premiums and any benefits you receive aren't taxable.

Disability Pensions

If you retired on disability, you must include in income any disability pension you receive under a plan that is paid for by your employer. You must report your taxable disability payments as wages on line 7 of Form 1040 or Form 1040A until you reach minimum retirement age. Minimum retirement age generally is the age at which you can first receive a pension or annuity if you aren't disabled.

TIP *You may be entitled to a tax credit if you were permanently and totally disabled when you retired. For information on this credit, see Pub. 524.*

Beginning on the day after you reach minimum retirement age, payments you receive are taxable as a pension or annuity. Report the payments on lines 16a and 16b of Form 1040 or on lines 12a and 12b of Form 1040A. For more information on pensions and annuities, see Pub. 575.

Terrorist attacks. Do not include in your income disability payments you receive for injuries incurred as a direct result of terrorist attacks directed against the United States (or its allies), whether outside or within the United States. However, you must include in your income any amounts that you received that you would have received in retirement had you not become disabled as a result of a terrorist attack.

TIP *Contact the company or agency making these payments if it incorrectly reports your payments as taxable income to the IRS on Form W-2, or on Form 1099-R, to request that it re-issue the form to report some or all of these payments as nontaxable income in box 12 (under code J) on Form W-2 or in box 1 but not in box 2a on Form 1099-R. If income taxes are being incorrectly withheld from these payments, you may also submit Form W-4, to the company or agency to stop the withholding of income taxes from payments reported on Form W-2 or you may submit Form W-4P, to stop the withholding of income taxes from payments reported on Form 1099-R.*

Disability payments you receive for injuries not incurred as a direct result of a terrorist attack or for illnesses or diseases not resulting from an injury incurred as a direct result of a terrorist attack can't be excluded from your income under this provision but may be excludable for other reasons. See Pub. 907.

Retirement and profit-sharing plans. If you receive payments from a retirement or profit-sharing plan that doesn't provide for disability retirement, don't treat the payments as a disability pension. The payments must be reported as a pension or annuity.

Accrued leave payment. If you retire on disability, any lump-sum payment you receive for accrued annual leave is a salary payment. The payment isn't a disability payment. Include it in your income in the tax year you receive it.

Military and Government Disability Pensions

Certain military and government disability pensions aren't taxable.

Service-connected disability. You may be able to exclude from income amounts you receive as a pension, annuity, or similar allowance for personal injury or sickness resulting from active service in one of the following government services.

- The armed forces of any country.
- The National Oceanic and Atmospheric Administration.
- The Public Health Service.
- The Foreign Service.

Conditions for exclusion. Do not include the disability payments in your income if any of the following conditions apply.

1. You were entitled to receive a disability payment before September 25, 1975.
2. You were a member of a listed government service or its reserve component, or were under a binding written commitment to become a member, on September 24, 1975.
3. You receive the disability payments for a combat-related injury. This is a personal injury or sickness that:
   a. Results directly from armed conflict,
   b. Takes place while you are engaged in extra-hazardous service,
   c. Takes place under conditions simulating war, including training exercises such as maneuvers, or
   d. Is caused by an instrumentality of war.
4. You would be entitled to receive disability compensation from the Department of Veterans Affairs (VA) if you filed an application for it. Your exclusion under this condition is equal to the amount you would be entitled to receive from the VA.

Pension based on years of service. If you receive a disability pension based on years of service, in most cases you must include it in your income. However, if the pension qualifies for the exclusion for a service-connected disability (discussed earlier), don't include in income the part of your pension that you would have received if the pension had been based on a percentage of disability. You must include the rest of your pension in your income.

Retroactive VA determination. If you retire from the armed services based on years of service and are later given a retroactive service-connected disability rating by the VA, your retirement pay for the retroactive period is excluded from income up to the amount of VA disability benefits you would have been entitled to receive. You can claim a refund of any tax paid on the excludable amount (subject to the statute of limitations) by filing an amended return on Form 1040X for each previous year during the retroactive period. You must include with each Form 1040X a copy of the official VA Determination letter granting the retroactive benefit. The letter must show the amount withheld and the effective date of the benefit.

If you receive a lump-sum disability severance payment and are later awarded VA disability benefits, exclude 100% of the severance benefit from your income. However, you must include in your income any lump-sum readjustment or other nondisability severance payment you received on release from active duty, even if you are later given a retroactive disability rating by the VA.

Special statute of limitations. In most cases, under the statute of limitations a claim for credit or refund must be filed within 3 years from the time a return was filed. However, if you receive a retroactive service-connected disability rating determination, the statute of limitations is extended by a 1-year period beginning on the date of the determination. This 1-year extended period applies to claims for credit or refund filed after June 17, 2008, and doesn't apply to any tax year that began more than 5 years before the date of the determination.

Example. You retired in 2011 and receive a pension based on your years of service. On August 3, 2017, you receive a determination of service-connected disability retroactive to 2011. Generally, you could claim a refund for the taxes paid on your pension for 2014, 2015, and 2016. However, under the special limitation period, you can also file a claim for 2013 as long as you file the claim by August 3, 2018. You can't file a claim for 2011 and 2012 because those tax years began more than 5 years before the determination.

Terrorist attack or military action. Do not include in your income disability payments you receive for injuries resulting directly from a terrorist or military action. However, you must include in your income any amounts that you received that you would have received in retirement had you not become disabled as a result of a terrorist or military action. Disability payments you receive for injuries not incurred as a direct result of a terrorist or military action or for illnesses or diseases not resulting from an injury incurred as a direct result of a terrorist or military action may be excludable from income for other reasons. See Pub. 907.

A terrorist action is one that is directed against the United States or any of its allies (including a multinational force in which the United States is participating). A military action is one that involves the armed forces of the United States and is a result of actual or threatened violence or aggression against the United States or any of its allies, but doesn't include training exercises.

Long-Term Care Insurance Contracts

In most cases, long-term care insurance contracts are treated as accident and health insurance contracts. Amounts you receive from them (other than policyholder dividends or premium refunds) are excludable in most cases from income as amounts received for personal injury or sickness. To claim an exclusion for payments made on a *per diem* or other periodic basis under a long-term care insurance contract, you must file Form 8853 with your return.

A long-term care insurance contract is an insurance contract that only provides coverage for qualified long-term care services. The contract must:

- Be guaranteed renewable;
- Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed;
- Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract may be used only to reduce future premiums or increase future benefits; and
- In most cases, not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer or the contract makes *per diem* or other periodic payments without regard to expenses.

Qualified long-term care services. Qualified long-term care services are:

- Necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, rehabilitative services, and maintenance and personal care services; and
- Required by a chronically ill individual and provided pursuant to a plan of care prescribed by a licensed health care practitioner.

Chronically ill individual. A chronically ill individual is one who has been certified by a licensed health care practitioner within the previous 12 months as one of the following.

- An individual who, for at least 90 days, is unable to perform at least two activities of daily living without substantial assistance due to a loss of functional capacity. Activities of daily living are eating, toileting, transferring, bathing, dressing, and continence.
- An individual who requires substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.

Limit on exclusion. The exclusion for payments made on a *per diem* or other periodic basis under a long-term care insurance contract is subject to a limit. The limit applies to the total of these payments and any accelerated death benefits made on a *per diem* or other periodic basis under a life insurance contract because the insured is chronically ill. (For more information on accelerated death benefits, see *Life Insurance Proceeds* under *Miscellaneous Income*, later.)

Under this limit, the excludable amount for any period is figured by subtracting any reimbursement received (through insurance or otherwise) for the cost of qualified long-term care services during the period from the larger of the following amounts.

- The cost of qualified long-term care services during the period.
- The dollar amount for the period ($360 per day for any period in 2017).

See Section C of Form 8853 and its instructions for more information.

Workers' Compensation

Amounts you receive as workers' compensation for an occupational sickness or injury are fully exempt from tax if they are paid under a workers' compensation act or a statute in the nature of a workers' compensation act. The exemption also applies to your survivors. The exemption, however, doesn't apply to retirement plan benefits you receive based on your age, length of service, or prior contributions to the plan, even if you retired because of an occupational sickness or injury.

CAUTION *If part of your workers' compensation reduces your social security or equivalent railroad retirement benefits received, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. See Pub. 554 for more information.*

Return to work. If you return to work after qualifying for workers' compensation, salary payments you receive for performing light duties are taxable as wages.

Disability pension. If your disability pension is paid under a statute that provides benefits only to employees with service-connected disabilities, part of it may be workers' compensation. That part is exempt from tax. The rest of your pension, based on years of service, is taxable as pension or annuity income. If you die, the part of your survivors' benefit that is a continuation of the workers' compensation is exempt from tax.

Other Sickness and Injury Benefits

In addition to disability pensions and annuities, you may receive other payments for sickness or injury.

Railroad sick pay. Payments you receive as sick pay under the Railroad Unemployment Insurance Act are taxable and you must include them in your income. However, don't include them in your income if they are for an on-the-job injury.

Black lung benefit payments. These payments are similar to workers' compensation and aren't taxable in most cases.

Federal Employees' Compensation Act (FECA). Payments received under this Act for personal injury or sickness, including payments to beneficiaries in case of death, aren't taxable. However, you are taxed on amounts you receive under this Act as continuation of pay for up to 45 days while a claim is being decided. Report this income on line 7 of Form 1040 or Form 1040A or on line 1 of Form 1040EZ. Also, pay for sick leave while a claim is being processed is taxable and must be included in your income as wages.

If part of the payments you receive under FECA reduces your social security or equivalent railroad retirement benefits received, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. See Pub. 554 for more information.

You can deduct the amount you spend to buy back sick leave for an earlier year to be eligible for nontaxable FECA benefits for that period. It is a miscellaneous deduction subject to the 2%-of-AGI limit on Schedule A (Form 1040). If you buy back sick leave in the same year you used it, the amount reduces your taxable sick leave pay. Do not deduct it separately.

Qualified Indian health care benefit. For benefits and coverage provided after March 23, 2010, the value of any qualified Indian health care benefit isn't taxable. These benefits include any health service or benefits provided by the Indian Health Service, amounts to reimburse medical care expenses provided by an Indian tribe, coverage under accident or health insurance, and any other medical care provided by an Indian tribe.

Other compensation. Many other amounts you receive as compensation for sickness or injury aren't taxable. These include the following amounts.

- Compensatory damages you receive for physical injury or physical sickness, whether paid in a lump sum or in periodic payments. See Court awards and damages under Other Income, later.
- Benefits you receive under an accident or health insurance policy on which either you paid the premiums or your employer paid the premiums but you had to include them in your income.
- Disability benefits you receive for loss of income or earning capacity as a result of injuries under a no-fault car insurance policy.
- Compensation you receive for permanent loss or loss of use of a part or function of your body, or for your permanent disfigurement. This compensation must be based only on the injury and not on the period of your absence from work. These benefits aren't taxable even if your employer pays for the accident and health plan that provides these benefits.

Reimbursement for medical care. A reimbursement for medical care generally isn't taxable. However, it may reduce your medical expense deduction. If you receive reimbursement for an expense you deducted in an earlier year, see Recoveries, later.

If you receive an advance reimbursement or loan for future medical expenses from your employer without regard to whether you suffered a personal injury or sickness or incurred medical expenses, that amount is included in your income, whether or not you incur uninsured medical expenses during the year.

Reimbursements received under your employer's plan for expenses incurred before the plan was established are included in income.

Amounts you receive under a reimbursement plan that provides for the payment of unused reimbursement amounts in cash or other benefits are included in your income. For details, see Pub. 969.

Miscellaneous Income

This section discusses various types of income. You may have taxable income from certain transactions even if no money changes hands. For example, you may have taxable income if you lend money at a below-market interest rate or have a debt you owe canceled.

Bartering

Bartering is an exchange of property or services. You must include in your income, at the time received, the fair market value of property or services you receive in bartering. If you exchange services with another person and you both have agreed ahead of time on the value of the services, that value will be accepted as fair market value unless the value can be shown to be otherwise.

Generally, you report this income on Schedule C (Form 1040) or Schedule C-EZ (Form 1040). However, if the barter involves an exchange of something other than services, such as in Example 4, later, you may have to use another form or schedule instead.

Example 1. You are a self-employed attorney who performs legal services for a client, a small corporation. The corporation gives you shares of its stock as payment for your services. You must include the fair market value of the shares in your income on Schedule C (Form 1040) or Schedule C-EZ (Form 1040) in the year you receive them.

Example 2. You are a self-employed accountant. You and a house painter are members of a barter club. Members contact each other directly and bargain for the value of the services to be performed. In return for accounting services you provided, the house painter painted your home. You must report as your income on Schedule C (Form 1040) or Schedule C-EZ (Form 1040) the fair market value of the house painting services you received. The house painter must include in income the fair market value of the accounting services you provided.

Example 3. You are self-employed and a member of a barter club. The club uses credit units as a means of exchange. It adds credit units to your account for goods or services you provide to members, which you can use to purchase goods or services offered by other members of the barter club. The club subtracts credit units from your account when you receive goods or services from other members. You must include in your income the value of the credit units that are added to your account, even though you may not actually receive goods or services from other members until a later tax year.

Example 4. You own a small apartment building. In return for 6 months rent-free use of an apartment, an artist gives you a work of art she created. You must report as rental income on Schedule E (Form 1040) the fair market value of the artwork, and the artist must report as income on Schedule C (Form 1040) or Schedule C-EZ (Form 1040) the fair rental value of the apartment.

Form 1099-B from barter exchange. If you exchanged property or services through a barter exchange, Form 1099-B, or a similar statement from the barter exchange should be sent to you by February 15, 2018. It should show the value of cash, property, services, credits, or scrip you received from exchanges during 2017. The IRS also will receive a copy of Form 1099-B.

Backup withholding. In most cases the income you receive from bartering isn't subject to regular income tax withholding. However, backup withholding will apply in certain circumstances to ensure that income tax is collected on this income.

Under backup withholding, the barter exchange must withhold, as income tax, 28% of the income if:

- You don't give the barter exchange your taxpayer identification number (generally a social security number or an employer identification number), or
- The IRS notifies the barter exchange that you gave it an incorrect identification number.

If you join a barter exchange, you must certify under penalties of perjury that your taxpayer identification number is correct and that you aren't subject to backup withholding. If you don't make this certification, backup withholding may begin immediately. The barter exchange will give you a Form W-9, or a similar form, for you to make this certification. The barter exchange will withhold tax only up to the amount of any cash paid to you or deposited in your account and any scrip or credit issued to you (and converted to cash).

TIP *If tax is withheld from your barter income, the barter exchange will report the amount of tax withheld on Form 1099-B, or similar statement.*

Canceled Debts

In most cases, if a debt you owe is canceled or forgiven, other than as a gift or bequest, you