

## What It Means for You

The Combat Zone Tax Exclusion (CZTE) is a provision that exempts all or a portion of earnings from federal income taxes while a Service member is deployed to a designated combat zone. This can mean more money in your pocket or more to achieve your financial goals. It also creates a scenario where you can contribute more than normal to the TSP.

## Income Excluded



In most cases, if you serve one or more days in a designated combat zone, federal income taxes are excluded on the following military compensation earned while there:

- **Basic Pay**
- **Incentive Bonuses**
- **Imminent Danger/Hostile Fire Pay**
- **Continuation Pay under BRS**
- **Awards and Other Financial Incentives:**  
Income from submissions made while in a combat zone
- **Combat Zone Injury Income:**  
Income earned while hospitalized from an injury sustained in a combat zone (up to 2 years after departing combat zone)
- **Student Loan Repayment:** Income from the portion of student loan repayment programs associated with the months spent in a combat zone. For example, if one year is required to earn the repayment, a Service member who served six of those months in a combat zone can exclude half of the repayment income from taxes.
- **Accrued Leave Sold:** Income earned in a combat zone from selling accrued leave

CZTE adjustments will be automatically reflect on your LES and W-2. Review both for confirmation. You do not have to sign up or enroll. Note that Medicare and Social Security taxes still apply.

## Maximum Exclusion

For enlisted Marines, warrant officers and commissioned warrant officers, all military pay for each month in a combat zone is excluded from federal taxation. For commissioned officers, the amount of income excluded is limited to the highest rate of enlisted pay plus imminent danger/hostile fire pay for each month present in a combat zone.

## Higher TSP Contribution Limits

Under normal circumstances, with no deployment to a combat zone, Marines can make Thrift Savings Plan contributions up to the amount of the IRS Annual Elective Deferral Limit, which is \$20,500\* for 2022. When deployed to a combat zone, the IRS Annual Addition Limit (\$61,000\* in 2022) is used instead.

Since this limit applies to all contributions made to a Service member's account, the maximum permitted contribution by a Service member will be the Annual Addition Limit minus any service-provided automatic and matching contributions made under the Blended Retirement System (BRS). Those not covered under BRS will be able to contribute up to the full limit. Additionally, catch-up contributions (\$6,500\* in 2022) are permitted for those age 50 and older.

Contributions to Roth TSP accounts are limited to the Elective Deferral Limit (\$20,500\* in 2022) so contributions in excess of this limit, along with service-provided automatic and matching contributions, will all be made to the participant's Traditional TSP account. Because of this limit, Service members wishing to maximize Roth account contributions while in a combat zone will often fund a Roth IRA as well.

*\*Changes annually*

## Resources:



- IRS Guidelines: [www.irs.gov/individuals/military/tax-exclusion-for-combat-service](https://www.irs.gov/individuals/military/tax-exclusion-for-combat-service)
- Combat Zones: [www.dfas.mil/militarymembers/payentitlements/Pay-Tables/CZ1.html](https://www.dfas.mil/militarymembers/payentitlements/Pay-Tables/CZ1.html)
- TSP Limits: <https://www.tsp.gov/making-contributions/contribution-limits>