

Federal Income Tax Withholding after Leaving the Military

Almost half of the unpaid taxes owed by current and retired federal employees are owed by retired military. Most often, this is simply because these retirees don't have a complete understanding of their tax obligation. This publication outlines some steps you can take to ensure you don't end up having a large tax bill after you leave the service.

Many retired military members are surprised at the amount of federal income tax they owe when they file their first tax return after retiring from the military. This happens because they move into a higher tax bracket as a result of having income from two sources (military retirement and civilian employment) and not having enough tax withheld. The problem is further complicated if their spouse also works or if they have income from other sources.

WHAT TO KNOW

Prior to leaving the military, you should complete Form W-4P (Withholding Certificate for Pension or Annuity Payments) to tell the Defense Finance & Accounting Service (DFAS) how much tax to withhold from your monthly retirement pay.

When you start a new job outside the military, your new employer is required to ask you to complete Form W-4 (Employee's Withholding Certificate) to determine how much tax they should withhold from each paycheck.

Although Form W-4 comes with line-by-line instructions, there are calculations and terms which may be confusing. While some employers may have employees in personnel or human resources departments who can help you to complete the form correctly, it is your responsibility, not your employer's, to make sure enough tax is withheld.

WHERE TO GO FOR HELP

It is very important that you have the correct amount of tax withheld from your paycheck and from your monthly military retirement pay. If you have a working spouse or more than one job, follow the directions on Form W-4.

The IRS encourages everyone to use the Tax Withholding Estimator to perform a "paycheck checkup." This will help you make sure you have the right amount of tax withheld from your paycheck.

WHAT TYPES OF INCOME ARE NONTAXABLE?

Some income is not subject to tax. A few examples are veteran's benefits, disability pay for certain military or government-related incidents, worker's compensation, and cash rebates from a dealer or manufacturer of an item you purchase.

Some retirees confuse military retirement pay, which is taxable, with Veterans Administration (VA) Disability Compensation or other non-taxable VA benefits. If you are not sure whether your retirement income is fully taxable, check with the VA or DFAS.

► FREQUENTLY ASKED QUESTIONS

Q As a military retiree is my retirement pay taxable?

A Payments you receive as a member of a military service generally are taxed as wages except for retirement pay, which is taxed as a pension. If your retirement pay is based on age or length of service, it is taxable and must be included in your income as a pension on lines 5a and 5b of Form 1040 or Form 1040-SR. Don't include in your income the amount of any reduction in retirement or retainer pay to provide a survivor annuity for your spouse or children under the Retired Serviceman's Family Protection Plan or the Survivor Benefit Plan. For additional information, see Publication 525, Taxable and Nontaxable Income.

Q I am a military retiree. Where can I go to change my retirement pay withholding?

A There are two ways to change your military retirement pay withholding. You can call the Retiree Pay customer service number at DFAS at 888-332-7411. Or, you can make changes online via DFAS's myPay secure web-based pay management system. The **myPay** system lets active duty military, National Guard and Reserve members, some federal government civilian employees, and military retirees and annuitants quickly change pay information like federal and state withholding. Follow the instructions on the **myPay** site if you need to establish a new account or contact 888-DFAS411 for help with existing accounts.

FOR ADDITIONAL INFORMATION

All of the following forms and publications can be found on **IRS.gov**.

For a free paper copy of any listed form or publication, please call 1-800-829-3676 (1-800-TAX-FORM).

For additional questions about tax relief and your responsibilities, you can call 1-800-829-1040.

REQUESTING A FACE-TO-FACE MEETING FOR HELP

You can make an appointment at an IRS local office to get help. Appointment times vary by tax issues and office locations. You can find the office closest to you with our **Taxpayer Assistance Locator tool**. Once you find your local office, call 844-545-5640 to schedule an appointment.

Forms and Publications that may be of assistance:

- **Publication 501**, Dependents, Standard Deduction, and Filing Information
- **Publication 505**, Tax Withholding and Estimated Tax
- **Publication 525**, Taxable and Nontaxable Income
- **Publication 554**, Tax Guide for Seniors
- **Publication 560**, Retirement Plans for Small Business
- **Publication 575**, Pension and Annuity Income
- **Publication 721**, Tax Guide to U.S. Civil Service Retirement Benefits
- **Publication 915**, Social Security and Equivalent Railroad Retirement Benefits
- **Publication 939**, General Rule for Pensions and Annuities
- **Form 1040**, U.S. Individual Income Tax Return
- **Form 1040-SR**, U.S. Tax Return for Seniors
- **Form 1040-ES**, Estimated Tax for Individuals
- **Schedule C**, Profit or Loss From Business
- **Schedule SE**, Self-Employment Tax

FREE TAX RETURN ASSISTANCE

Many of you may have received free tax filing assistance through the military Volunteer Income Tax Assistance (VITA) program. If you do not have access to this service after you retire, many community organizations also offer free tax assistance.

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs are generally located at community and neighborhood locations across the country. To locate the nearest VITA or TCE site near you, use the **VITA Locator Tool** or call 800-906-9887.