

# The Combat-Injured Veterans Tax Fairness Act of 2016

## Cross References

- H.R. 5015

The Combat-Injured Veterans Tax Fairness Act of 2016 was signed into law on December 16, 2016. The law directs the Department of Defense to refund money that was improperly withheld for tax purposes from severance payments for veterans separated from the Armed Forces because of combat-related injuries. Under IRC section 112, gross income does not include compensation received for active service in a combat zone.

According to the bill's sponsor, veterans who suffered combat-related injuries and who separated from the military were not supposed to be taxed on the one-time lump sum disability severance payments they received. Unfortunately, since 1991 taxes were nonetheless withheld from qualifying veterans due to the limitations of the Department of Defense's automated payment system. Some veterans were unaware that their benefits were improperly reduced as a result of tax withholding and the statute of limitations has long since expired for those years.

The new law corrects this problem by directing the Department of Defense to identify veterans who have been separated from service for combat-related injuries and received a severance payment. The law instructs the Department of Defense to determine how much the combat-wounded veterans are owed and to provide the veteran instructions for filing amended tax returns to recover the amounts improperly withheld for tax purposes.

The law extends the limitation on time for filing a claim for a credit or refund under IRC section 6511(a) to enable veterans to be restored of funds previously withheld from their severances. The statute of limitations is extended one year after the Department of Defense provides the affected service members notice of the amount improperly withheld from their severance payments.