

Military OneSource Podcast — Armed Forces Tax Council

Episode transcript

Intro voiceover:

Welcome to the Military OneSource podcast. Military OneSource is an official program of the Defense Department, with tools, information and resources to help families navigate all aspects of military life. For more information, visit militaryonesource.mil.

Bruce Moody:

Welcome to the podcast. I'm Bruce Moody.

Today, we are talking taxes. I have two guests with me. Susan Mitchell is executive director of the Armed Forces Tax Council and Kelly Smith is associate director of Military Community Support Programs, and a colleague. Welcome to both of you.

Susan Mitchell:

Hi, Bruce.

Kelly Smith:

Thank you, Bruce.

Bruce:

Kelly, let's start with you because what we want to do is talk about your side of Military Community and Family Policy, which is Military OneSource and MilTax. So, tell us about MilTax.

Kelly:

Yeah, Bruce, thank you for the opportunity to share about MilTax and how it is different from other tax preparation services that are out there in the community. MilTax is the only tax preparation and filing software provided by the Defense Department that's designed exclusively for our military community. The software that's used in MilTax is developed specifically to address scenarios that we know that our military families face. Whether we're talking about combat pay or having multiple moves or addressing the Spouse Residency Relief Act, MilTax is there to provide assistance with those military specific situations and scenarios.

And the thing about MilTax, Bruce, is that it's convenient. We have our trained experts who are readily available to provide support to those that are filing their taxes. If you have a question about filing, if you need help with walking through the steps of filing, you can always call Military OneSource at 1-800-342-9647 to get that support.

But then, you can also use our MilTax e-filing software. Again, that's 100% free, regardless of your rank or your income, and you can file your federal return and up to three state returns completely for free using the MilTax e-filing software, which is available on militaryonesource.mil.

Bruce:

Yeah, traffic to Military OneSource spikes around tax season. Can you do me a quick favor, though, because you say it's free? A lot of services say they offer free, but it's kind of like free with an asterisk. But ours is 100% free. So, what does that really mean?

Kelly:

Good question. People are like, is it really, really free? And it really is, Bruce. For folks who are filing using our MilTax e-filing software, again, there are no limits with regard to rank or pay grade or income. It could be across the spectrum and still use that software completely for free. All of the services through Military OneSource are free. That is a benefit that our service members and their families are entitled to. So, there's no charge for calling in and asking questions about filing your taxes. Whether you use our MilTax e-filing software or you use another provider, we're still there to provide that support.

Bruce:

Absolutely, and we'll get a link in the program notes. I know you're really excited about this time of year and getting MilTax used by as many folks in the military community as possible.

Thanks a lot, Kelly, for joining us and for getting us started. Let's turn to Susan Mitchell. Susan, you're the executive director of the Armed Forces Tax Council. Tell us a little bit about the Armed Forces Tax Council, if you would.

Susan:

Sure, Bruce. The Armed Forces Tax Council essentially coordinates all tax matters that affect federal, state, local and even foreign tax liabilities of members of the armed forces and also the obligations that military departments have as employers. The council is essentially made up of an executive director, which I am serving in that position, and then three members from the OSD staff, and then one member from each of the military services to include the Coast Guard. So, we have quarterly meetings. We discuss the tax issues that are facing the department and determine what we can do to assist the department, but also individual service members.

Bruce:

So, that means tax law is totally your jam, and this is the most wonderful time of the year for you?

Susan:

Absolutely. I would agree with that. It's always good to be back to talk taxes, particularly in late March.

Bruce:

All right, great, great, great. OK, so let's get into it. Let's start with a topic that impacts every taxpayer, and that's the tax filing deadline, in this case for 2022 taxes. Are there any tax filing extensions like there were in past tax filing seasons?

Susan:

Well, this year the deadline for filing your 2022 tax return or to file an extension and to pay any taxes that a taxpayer may owe is April 18, and that's for most taxpayers. And so that folks are aware, there are some longstanding tax-filing extensions that are available for service members who are stationed outside of the United States and Puerto Rico, and that's a two-month extension for filing and paying any tax that might be due. For a calendar year return, that two-month extension is to June 15, and it's automatic. They don't have to file anything if you're overseas asking for it to be extended to June 15.

If they're unable to file their return by either that two-month extension date, taxpayers can request an additional extension. And this goes for the folks who have a tax-filing date of April 18, as well. And that extension is to Oct. 15. If the 15th falls on a Sunday, then it goes to the next business day. And in order to get that extension, they do that by filing form 4868 before their date runs out, either the June 15 or the April 15 date. But any tax that's due, any payments made after the April 18 or the June 15 deadlines is going to be subject to both interest charges and possibly failure to pay penalties. So that's important to note.

Bruce:

Of course, of course. Now for service members who are deployed in a combat zone, remind us if you would about the details on the combat zone extension.

Susan:

Sure. For those service members who are deployed in a combat zone, the deadline for filing and paying taxes is generally extended for the period of their service in the combat zone plus 180 days after their last day in the combat zone, and that extension also includes the number of days left before the tax filing [00:07:30] deadline.

I'll mention here also that this year, taxpayers in most of California and parts of Alabama and Georgia, too, now have until Oct. 16 to file various federal individual and business tax returns and make any tax payments because those areas were declared disaster areas due to severe winter storms. And then, in California, there was flooding, landslides and mudslides. So, that's a fairly recent change. Previously, the deadline had been postponed to May 15 for those areas, but it's now till Oct. 16. And incidentally, spouses are entitled to the same deadline extensions.

Bruce:

All right. Now speaking of spouses, are there any new tax rules relating to spouses?

Susan:

Well, I think it's always important to address any changes that are specific to spouses so I'm glad you asked. I know that a lot of military spouses are teachers, so I like to mention any business deductions for teachers in particular, but for the 2022 tax year, teachers and other educators who have to pay out of pocket for books, supplies, COVID-19 protective items, which we are still doing, other materials used in the classroom, etc., they can deduct up to \$300 of these out-of-pocket expenses. An eligible educator is anyone who is a kindergarten through 12th-grade teacher, instructor, counselor, principal or even an aide in a school for at least 900 hours during the school year. Incidentally, unfortunately, homeschooling parents are not eligible to take that deduction. The good thing about this particular deduction is it's an above the line deduction, so you don't have to itemize to claim it.

I also like to mention self-employed taxpayers when talking about spouses because many are working in the gig economy [a labor market that relies heavily on temporary and part-time positions]. And what I'll mention there is just remember that any income that is earned is reportable to the IRS.

I'll mention also in terms of spouses, the student loan interest deduction because many spouses are taking classes, and I know a lot of people are waiting to see if and when President Biden will cancel student loan debt, but even if your student loan debt isn't canceled, or if only some of it is forgiven, folks may still be able to deduct up to \$2,500 in student loan interest paid for a particular year. So, just know that the credit amount is gradually reduced to zero if your modified adjusted gross income, your AGI, is over a certain amount.

So, to give you a for instance, for married couples filing a joint return, the phase-out range kicks in at \$145,000. It used to be \$140,000 last year, and that's while the credit is fully phased out if the modified AGI exceeds \$175,000. For folks that have an AGI under \$175,000, then they can still take advantage of that deduction.

For the general population, to include the military, if you received educational assistance benefits from your employer, perhaps under an educational assistance program or something like that, you can exclude up to \$5,250 of those benefits. And normally, it's all considered taxable income, but just remember that that's suspended through 2025 for that first \$5,250.

Also, Bruce, I'll mention a change to the residency rules under the Servicemembers' Civil Relief Act. I was just asked about this earlier in the week. As you know, and the listeners if they're in the military, their state of legal residency is usually their home of record, and that's the state recorded by the military as your home when you joined the military. And that state is considered your resident state as long as you're on active duty. So, even if you're stationed in another state, you're still considered a resident of your state of legal residency.

What about spouses, though? Before 2009, military spouses generally had to pay income taxes to the state in which their military spouses were stationed. When the Military Spouses Residency Relief Act was passed in 2009, military spouses could then choose to be treated as if they still lived in their previous or state of residence. But even up until 2018, it was also required that the residence had to be established with their military spouse at the time that they both lived there. That's no longer the case. After 2018, non-military spouses can use their military spouse's resident state when filing their taxes, and that's regardless of when the marriage happened.

And then there was another change that's been recent, and it came about in the Veterans Auto and Education Improvement Act of 2022, which became law on Jan. 5. And that further amends the tax residency rules for spouses. The new law allows service members and their spouses to pick the state in which they pay income taxes from three options, the legal residence or domicile of the service member, the legal residence or domicile of the spouse or the current permanent duty station of the service member.

So, essentially, the new law expands to spouses a residency protection already offered to service members that allows them to remain tied to a former legal residency, even if they no longer physically live there. So that's good. It may be useful information to say that some states require the non-military spouse to declare their non-residency for withholding purposes every year. And so, folks just need to check with their individual states, particularly when they PCS to a new state, and they're not used to what the laws are. And some employers require the spouse to declare their non-residency on an annual basis.

Bruce:

Thanks, Susan. A lot of great information there. As we move on, over the last couple of years, we saw a lot of tax changes. We saw the customary increases to tax brackets, the standard deduction, as well as extensions and expansions to a few tax provisions. One of those COVID-related tax changes dealt with the economic impact payments. Do we need to be concerned with the COVID-era payments on this year's tax return?

Susan:

In 2022, there were no stimulus check payments; as a result, there's no recovery rebate credit either for the 2022 tax year.

Bruce:

Got it. OK, new topic. I've heard that there are changes that have been made to various itemized deductions. Tell us about that if you would.

Susan:

Definitely. First, I'll mention the standard deduction. After an inflation adjustment, the standard deduction amounts were increased for 2022, as is normal, to account for that inflation. For instance, married couples get \$25,900, which is up by about \$800 from last year plus \$1,400 for each spouse that's aged 65 or older. And singles can claim \$12,950

standard deduction, and that's up by about \$400 from last year. They get \$14,700 if they're at least 65 years old and single.

Itemized deductions remain mostly the same. For most filers, taking the higher standard deduction is going to be more practical and saves the hassle of keeping track of receipts. But if you have enough tax-deductible expenses, you might benefit from itemizing.

Here's a change for this year that a lot of folks may be interested in, starting with the 2022 tax year, third-party payment settlement network, so places like PayPal or Venmo, are going to send you a form 1099-K if you've paid more than \$600 during the year for goods and services. And that's regardless of the number of transactions that you had. Previously, the form was only sent if you received more than \$20,000 in gross payments and participated in more than 200 transactions. I think that's a big change where more people than ever will get a 1099-K form when filling out their income tax returns for 2022. And something to keep in mind, just remember that that 1099-K reporting is only for the money received for goods and services. It doesn't apply to payments from family or friends. So that's one thing.

Itemized deductions haven't changed much for 2022, but I think it's probably still worth pointing out that the deduction for state and local income taxes, property taxes and real estate taxes is capped at \$10,000. The mortgage interest deduction is limited to \$750,000 of indebtedness, but people who had a million dollars of home mortgage debt before Dec. 16, 2017, will still be able to deduct the interest on that loan.

Another one is only medical expenses that exceed 7.5% of AGI can be deducted in 2022. And a little bit of change with charitable donations, so this year the annual income tax deduction limits for gifts to public charities are 30% of AGI for contributions of non-cash assets if they're held for more than one year. And then, 60% of AGI for contributions of cash. A lot of folks are going to remember the generous above the line deduction for up to \$300 of charitable cash contributions, which was actually \$600 for a married couple filing a joint return, and that expired at the end of 2021. So, as a result, only people who claimed the standard deduction on their tax return, rather than claiming itemized deductions on Schedule A, were allowed to take this deduction. And the last one I'll mention is that, of course, no miscellaneous itemized deductions are allowed any longer.

Bruce:

All right, let's get into the earned income tax credit. This is a huge benefit to many of our junior service members. I understand the EITC has had some changes for the 2022 tax season. Do I have that right?

Susan:

You do, and that's right. Last year, the earned income tax credit allowed more workers without qualifying children to claim the earned income tax credit on their return, and that included both younger and older Americans. The childless EITC amounts were higher, too, but once again, those enhancements expired at the end of last year.

Without the 2021 improvements in place, the minimum age for a childless worker to claim the EITC jumps back up to 25 years old for 2022 tax returns. It was 19 years old in 2021.

The maximum age limit is 65 years old, and that had been eliminated in the 2021 tax year. It is now back in play for 2022. The maximum credit available for childless workers also drops by almost \$1,000, from \$1,502 to \$560 for the 2022 tax year. Also, if you recall, the rule allowing you to use your 2019 earned income to calculate your EITC, if, in fact, it boosted your credit amount, that rule no longer applies. Lots of changes with EITC.

As with many credits, there are several inflation-based adjustments that modify the credit for the 2022 tax year. So even though some of the enhancements from last year's credit have expired, the credit itself is higher for most folks, and the EITC phase out ranges were adjusted to account for inflation as well.

Bruce:

Well, Susan, this is just great, and we're going to keep on going. I'm just really amazed at how much information we're packing into this episode. I really appreciate your help.

Let's get into the child tax credit. Basically, what should taxpayers with children expect?

Susan:

Absolutely, Bruce. The credit is lower for tax year 2022 after it was bumped up for 2021. The child tax credit for this year has now reverted back to its pre-2021 format, I would say. The credit is now \$2,000 per child, and that's for age 16 years old or younger, and it's subject to a phaseout starting at \$400,000 for joint filers and \$200,000 for single filers. Incidentally, for other qualified dependents, because we know there are a lot of military families that have perhaps parents that are living with them, etc., taxpayers can claim an additional \$500 credit. For some lower income taxpayers, the 2022 credit is only partially refundable, and they have to have earned income of at least \$2,500 to take advantage of the credit's limited refundability. And there's not going to be any monthly advance payments of the credit in 2022.

When we start talking about credits, I feel like it's a good time to mention that tax credits, which reduce the tax that you owe dollar for dollar, are normally better than deductions, which reduce how much of your income is actually subject to tax. I'll just end with that.

Bruce:

So, that was the child tax credit. And I understand there's been some changes to the child and dependent care credit compared to the significant changes made to this credit for tax year 2021. Is that correct?

Susan:

That's right, Bruce. You'll recall that there were some significant improvements made to that child and dependent care credit for 2021, and the credit was also fully refundable in 2021. For 2022, the child and dependent care credit is non-refundable, and the maximum credit percentage also drops from 50% to 35%.

There are also fewer care expenses that are eligible for the credit.

For 2022, the credit is only allowed for up to \$3,000 in expenses for one child and \$6,000 for more than one child. To put this in perspective, when the 35% maximum credit percentage is applied, that puts the top credit for 2022 at \$1,050, which is, of course, 35% of \$3000, and that's for one child. And then a max of \$2,100 if you have two or more children.

In addition, it's only allowed for families making less than \$15,000 a year in 2022 instead of making \$125,000 per year, which was required in 2021. So, huge changes. After that \$15,000 a year, the credit starts to phase out. Like I said, these are big changes for 2022 to this particular tax credit, and we're just not going to have nearly as many military families be able to take advantage of this credit as they were in the past.

Bruce:

You've been talking about federal income tax changes, but should folks be aware of any state income tax changes?

Susan:

Yes, in terms of refunds of state taxes paid that the IRS has determined, in their words, in the interest of sound administration and other factors, that taxpayers in many states are not going to need to report these payments on their '22 tax returns. This is a good thing, obviously. So, specifically, I'll mention the states that are affected, so people in these states do not need to report their state payments on their 2022 tax return, states of California, Colorado, Connecticut, Delaware, Florida, Hawaii, Idaho, Illinois, Indiana, Maine, New Jersey, New Mexico, New York, Oregon, Pennsylvania and Rhode Island. Alaska is also part of that group, but there's some more nuanced information for Alaska residents.

And then, in addition, many people in Georgia, Massachusetts, South Carolina and Virginia also will not include state payments in income for federal tax purposes if they meet certain requirements. For those taxpayers, the state payments are not going to be included in your income for federal tax purposes if the payments are refunds of state taxes paid, and either the recipient claimed the standard deduction or itemized their deductions, but still didn't receive a tax benefit.

Bruce:

I know you don't have a crystal ball, but do you have any information on what the next tax-filing season is going to be looking like, or even beyond next season?

Susan:

Bruce, I always say this is actually a great time of year to start thinking about next year's return, even though tax-filing season is still months away. In regard to withholding taxes, etc., you've got all your paperwork available to you out. You've just filed your tax returns. I say that it's a good time to take a look at those documents, estimate what your income might be for the next year, and use the IRS withholding calculator to figure out how your withholding should change. If you're getting too big of a refund, then you know might want to keep it the same if your income is going to go up. But obviously, if you're having to pay, you might want to rethink things, as well.

The more tax planning you do, the more money you might be able to save. And so, if you see something now that can reduce your tax bill, there's still plenty of time to act before the year runs out. But tax planning also requires an awareness of what's new and changed from last year, and so that's why it's helpful, the things that we're talking about during this podcast.

I will say that the year 2026 is looming, and what I'm referring to is the expiration of many tax provisions that were enacted in the Tax Cuts and Jobs Act, the TCJA of 2017. And that act sunsets quite a few beneficial tax provisions on Dec. 31, 2025. And I'll just give you a few examples. Tax rates are going up after 2025. The standard deduction is going to be cut in half. The child tax credit is going to revert back to \$1,000 per child. Exemptions will return to approximately \$5,000 per person. And then, any tax-free treatment for student loans forgiven due to death or disability are going to end. And also, the \$10,000 limit on itemizing state and local taxes will end. And there's more changes. But, off the top of my head, those are a few examples of some of the provisions that will change on Dec. 31, 2025.

Bruce:

Yeah. And those are probably just a few of the many changes coming our way, which is why we love having you with us, and we're excited to have you back on the podcast. Before we end, Susan, do you have any last bits of advice for service members and their family members for this tax season?

Susan:

I think it's good to point out some resources that taxpayers can go to themselves. A great resource is irs.gov. Another valuable resource is IRS Publication 3, the Armed Forces' Tax Guide. Also, I'd like to mention, keep in mind that the Where's My Refund link on irs.gov after you've filed your return and want to check on the status of your refund, updates to Where's My Refund are made once a day, usually overnight. And even though the IRS issues most refunds within 21 days, it's possible that a refund may take longer, so just know that. But that website is updated once a day.

Taxpayers should also consider the time that it takes for banks to post the refund to the taxpayer's account. And then of course, people waiting for a refund in the mail should plan for extra time.

There are free tax preparation services on many installations through the Volunteer Income Tax Assistance program. And those VITA sites are open to active-duty service members and their families for free, and oftentimes retirees, as well.

And, of course, as Kelly mentioned at the beginning of this podcast, MilTax is a wonderful service, as well, through Military OneSource. What's great about that MilTax program is that service members have available to them tax consultants by phone if they have questions when completing their returns.

In terms of tips, I like to mention that the fastest and most reliable way to file taxes is electronically and to choose direct deposit if you're expecting a refund. Most times, if you use electronic software, it will perform the more complex calculations, and it's going to catch any math errors that would perhaps occur if filing a paper return.

I do know that some of the common mistakes that the IRS sees and which may cause a return to be rejected include a wrong social security number, a math mistake or omitting an item that an employer has already reported as income to the IRS. And so, most taxpayers should have received income documents near the end of January, some into February. If you happen to be missing a W2 or Form 1099, there are some things that you can do. Taxpayers should first contact their employer or the issuing agency to ask for copies, which essentially is DFAS. And if they can't get a copy from DFAS, then they can contact the IRS for help. And just know that they may need to file an amended return if they filed with missing or incorrect information, or if they received a corrected form W2 or a previously missing form 1099 after they've filed their return, and the information differs from their previous estimate.

It's always important to remember to use the same name that is on your Social Security card. I have seen returns rejected for that reason. And then taxpayers should double-check that their bank account numbers are correct. So, they may want to print out their return to review it on paper before submitting it to the IRS. And just remember, people can always amend their returns later, if need be, but it's certainly much simpler getting it right the first time.

Bruce:

Well, Susan, we have packed a lot of information into this podcast episode, and at the same time, we've only touched the surface of things. And we really hope to have you back to cover more military specific, tax-related topics. We just thank you so much for being with us today.

Susan:

Absolutely, Bruce. I'm happy to join you and pass along any tidbits. It's my favorite time of the year.

Bruce:

It is. Well, happy holidays to you.

Susan:

Thank you.

Bruce:

Susan Mitchell is executive director of the Armed Forces Tax Council.

And we want to remind you that Military OneSource is an official resource of the Defense Department, and we want to hear from you. We have a link in our program notes, and you can let us know what you think about this episode or other episodes. And you can let us know what you'd like us to talk about in future episodes.

The Military OneSource podcast is available wherever you listen to your podcasts, so be sure to subscribe because we cover a wide range of topics to help military families navigate military life.

I'm Bruce Moody. Thanks so much for listening. Take care. Bye-bye.