

Military OneSource Podcast — Intel for Tax Season From a MilTax Consultant

MilTax Program

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. It's tax filing season. All the stress of the holidays without the travel. It's time-consuming, it's complicated. And a military family is complicated. I'm a retired Navy chief, I know about this. Even if you think you know how to file taxes to your absolute best advantage — and honestly, we'd all like to meet you — the tax laws change every year. And a lot of these rules impact the lives of military families.

So we need help. Specifically, you need help with free tax filing and free tax consultants, both from the same place, and that's MilTax. That's what we're going to be talking about today with our guests. My guest today is Michelle Aldana. Michelle is with Military Community and Family Policy, which makes her a colleague. She's from the team that brings you Military OneSource. Also joining us today is Fred Koch. Fred is a financial counselor and a tax consultant, also with Military OneSource. Also, Fred, welcome to the podcast.

Fred Koch:

Thank you. Glad to be here.

Bruce Moody:

We're glad to have you, but we're going to put you on hold for just a second and we're going to start with Michelle. Michelle, just give us a general idea about what MilTax is.

Michelle Aldana:

Thanks, Bruce. It's always nice to be able to talk to you and connect with you, especially today to share the Defense Department's free MilTax e-filing software that you can get through Military OneSource. The best part of it is that it's free. I know I love things that are free. And then on top of that, you get free tax consultations with people who are

certified and know what they're talking about in regards to filing taxes specifically for our military families. So they're going to know about how do we deal with taxes for deployments, or combat and training pay, or housing, rentals, multi-state filings if you live OCONUS versus CONUS.

They're trained to be able to answer those military-specific needs. Because we know as we go from place to place, it can get a little tricky, and it's really great to be able to have that free backup, that wonderful person that's going to have that information. And then it's free. That's amazing.

It's free for our service members, our eligible family members and our survivors. So if you are an active-duty service member or a reservist or National Guard person, regardless of your activation status, you and your immediate family are eligible to use MilTax. If you are part of a survivor's family, you are eligible for Military OneSource. So if you're eligible for Military OneSource, you are eligible for a MilTax e-filing software.

And we have just really wonderful people who can provide that. And fortunately, we have one of those wonderful people here. Fred has that experience and he'll talk about his role, about how he helps our service members and their families be able to file those taxes for free so they can have that money in their pocket to support their families, and hopefully be able to protect them from other programs that maybe charge that extra money. They'll prevent you from maybe paying money that you were not expecting because MilTax is completely and totally free. You will not incur any fees from the Defense Department's MilTax software.

Bruce Moody:

Thanks, Michelle. Fred, good to have you on the podcast. Let's begin by giving you the opportunity to have you talk a little bit about yourself.

Fred Koch:

Okay, sure. I have 27 years of active-duty service with the military. After that, I worked as a contractor for 10 years with military personnel. So I have over 37 years working with active-duty military personnel in various areas. After that, I came to Military OneSource. I have been at Military OneSource as a financial counselor for over nine years now.

I love working with military families. It's part of my life. I love sharing information and helping people do what they want to do, and that's one of my favorite things working at Military OneSource. The military members just want to do what's right and we love helping them do that. I'm also a primary tax consultant, financial counselor and trainer here at Military OneSource to make sure we all have a good baseline of information to help the military families.

Bruce Moody:

That's a really good point. And like you say, life is tricky when you're in a military family. There's a lot of military-specific needs, also something you said. And a lot of the free

versions that you're going to find elsewhere, they don't open up a lot of the buttons and the functionality that allows you to deal with all the complexities of military life, whereas MilTax is totally open, totally free. What I'd like to begin with is just kind of walk us through the tax filing process for someone who's using MilTax.

Fred Koch:

Okay, sure. Basically, you have to access the MilTax program. It's a little different this year from what they've used in the past, because in the past you had to go through your Military OneSource account first and then there's a link there, we take you to some questions, and then eventually to the MilTax site where you'd create your account or log in your previous year's account to start doing your taxes.

This year, there's a different registration process. You don't even have to have a Military OneSource account this year. To access MilTax, you've just got to follow the link. They'll validate you through your DEERS information, and then take you to that MilTax website where you'll create an account and then start your tax return through there.

Bruce Moody:

That's really awesome and that's a really important thing to say. In previous years we've offered MilTax. But this year, it's just so much easier to just get started with it. You don't have all that stuff of just trying to get in, so that's a really important point to make. So you're a MilTax consultant, you're a tax consultant, so you're talking with military families all the time. What are some of the common questions that you're getting from military families regarding taxes that they have to pay?

Fred Koch:

We get a wide range of questions obviously, but the three most common ones we run into is honestly, the first is the Military Spouses Residency Relief Act or MSRRA. The military loves acronyms. That's a federal law that allows special rights for spouses to do a couple of things. And the main thing we run into is spouses have to change jobs all the time when they follow the service member around.

More and more people need to be able to work from home, which is great. But the MSRRA allows them to choose the service member's legal domicile for tax and voting purposes so that they don't have to worry about filing state taxes where they happen to be living now and working, just because their service member's now there and following all those state's rules for filing taxes, and particularly helpful if the service member's legal domicile is a non-tax state. Then the spouse can claim that state and not have to pay state taxes.

So we get a lot of questions about how does that apply? What type of work does it apply to and how do they file it on their taxes? That's the most common question we get every year for military families. The next closest one is capital gains taxes. And that's taxes we have to pay when we sell some kind of property for more than we paid for it — most commonly real estate and investments we have. And they want to know, hey, they get these statements when they sell the property, or in crypto for example, where you

may not get any statements at all. This still applies to the same rules. If you make a profit on crypto transactions, that has to be reported and claim the capital gains taxes on it. So they want to know, how do I do that? What taxes do I have to pay? When do I have to pay it?

All those types of rules. We can step them through all those things, check their situation and see what applies, what doesn't apply, and tell them exactly what they have to do to comply with what the requirements are, both federal and state. And then the third topic that is really common is those state taxes. As you mentioned, it's getting simpler now because the spouse doesn't always have to file taxes in the state where they're living, they can choose their service member's state.

And there's some new changes that occurred in 2023 that applies the first time this year. We actually have additional choices on where they can file taxes for the service member and the spouse that were never available before. So we expect a lot of questions on that this year. But how to address the state tax, as you mentioned, they may file separately, but now with the new laws, there's no reason they have to file separate state returns. They can always both file with the same state under the new laws that are available. Those are the main three things we see over and over and over each year.

Bruce Moody:

And so you're kind of painting a picture of a military family that's moving around a lot. Not a shock to anyone, but just to kind of give us a picture of what that looks like when you're working with families, do you have any stories that you can share of what that looks like in a particular family?

Fred Koch:

Again, there's lots of different situations and all the information is private. But one that's stuck in my mind over the years — and this happened last year — is that because of moving around and changes in the military life, things happen that you wish wouldn't sometimes. In this situation, a debt happened and they got cleared of the debt. The debt was forgiven for them, and they went to a professional tax preparer, and they told them they had to pay thousands of dollars in taxes on that forgiven debt. And they called us just to confirm is that really required? And we went through the situation.

We were able to figure out that they qualified for the IRS debt forgiveness exceptions that did not require them to pay taxes on that forgiven debt. That saved them thousands of dollars in taxes that professional taxpayers said they had to pay. But when we realized the situation and some of the unique military things that apply, they did not have to pay those taxes. I always like it when we save people money on their taxes.

Bruce Moody:

This example, it just shines a lot on it. One of the ways that you save people money is you have to keep up to date with the tax laws, the new laws, the changing laws, what it

means to a military family who's in this situation or not. How do you keep up with all of that?

Fred Koch:

It's not as easy as we would like. We're not at any...

Bruce Moody:

Are you saying tax law is complicated?

Fred Koch:

Yes, definitely.

Bruce Moody:

Okay.

Fred Koch:

We do our own research on stuff. We are linked in to some automatic things. IRS sends out notices if you're subscribed to their service, we do that. Each of us take different areas throughout the year and try and track those changes. So it's pretty much up to us to research it, but once we find a change, we distribute out for all of our tax consultants so we all have the same baseline and no matter who somebody talks to, basically give the exact same answers from us.

Bruce Moody:

Different perspective on the same concept that these tax laws are complicated. Given the complication of these laws, how soon should a family reach out to a MilTax consultant for help with their taxes?

Fred Koch:

As soon as they have a question, they should reach out. We have folks here like myself year-round. We answer questions anytime they call. It doesn't have to wait until tax filing season. We have folks here year-round to answer questions. The reason you want to do it early is because in case you need some additional information that you don't have, you've got time to get it. So do that. Start anytime when you have questions.

Bruce Moody:

Okay, so we're talking about MilTax. This is the MilTax season, but you don't have to wait for all your 1099s and schedules and all that paperwork to arrive in the mail. In fact, you don't even have to wait for tax season. If you have a situation and you have questions about the tax implications regardless of where you are in the calendar, you're saying that's the time to call?

Fred Koch:

Absolutely. We get calls throughout the year. I probably field five to 10 calls a week on taxes throughout the year. Now during tax season, that jumps to five to 10 calls a day.

And it's good to prepare in time. People think about starting a business, they're moving to a new state, they sell a house or are considering selling a house versus renting. What are the tax implications? They have a new child, what's that mean to them tax-wise? It's good to know ahead of time what's going on, what you can plan on, because you can actually adjust your withholding in many cases, and they have more money to use throughout the year where they can get that big refund at the end of the year.

Bruce Moody:

Yeah, exactly. That refund is not what it seems to be. What are some other recommendations, some tips that you have for service members, for families with regard to tax preparation?

Fred Koch:

Keep good records. It may sound simplistic, but if you get audited, the IRS requires written documentation to validate anything we've put on our taxes. Now the good news is that can be electronic. It's considered written, so it doesn't have to be old pen and paper. It can be electronic. But keep your records. It's always easier to not need something when it comes time to filing your tax or justifying what you did than to try and find it later and realize I can't come up with that, and then it just gets disallowed. So, keep good records.

Ask the questions early. As soon as it comes to your mind. Don't think, "Well, I got to wait until tax filing season to ask this question." Give us a call, talk about it, find out if it's important or not, what it can do for you or not. Those are the key things. Don't put it off, get it done. And if you happen to miss something, if you forgot to file taxes for a previous year for whatever reason, don't put it off, get it done. If you wait too long, you might miss eligibility for a refund totally. And if you do owe taxes, they're going to charge you interest by the day, so you want to take care of it as quickly as possible.

Bruce Moody:

Fred, in the work that you do — and you're working with military families — how do you see tax situations that are unique to military families? What do you see going on in military families that's unique to them tax-wise?

Fred Koch:

One of the unique things about military life as you all know, is the frequent moves they have to do. Because of that, they're always having to change states, spouses are changing jobs. And because of federal law recognizing that disadvantage that the military has having to move all the time, there are special benefits that the spouses have on where they have to pay taxes when they change jobs. They're able to maintain a previous status legal domicile where civilians have to change it when they move.

So there are quite a few things that are unique to the military that can save them money on tax or reduce the tax they have to pay, and in some cases not have to pay taxes at all

if these rules are applied in the military. It's very important for to understand what those rules are and take benefit of them so they don't miss anything they're entitled to.

Bruce Moody:

MilTax seems to really stand out in that as a tax service, it really understands military-specific situations. Kind of get into that for us.

Fred Koch:

Many civilian tax preparers never work with a military person in their entire career. The ones that do work may not work them very frequently. That's one of the big benefits we have. We work with almost exclusively with military personnel. We focus in on the special benefits that apply only to military personnel. So by working with us, we can highlight those things and make sure that military members get every benefit they're entitled to because of their military service.

Bruce Moody:

Got it. And I'm going to ask a question, and I'm barely fairly certain that I don't know what I'm talking about, and that's kind of the point, right? So there's this new federal law, and the federal law that says, "Service members and spouses can choose one of three domiciles when it comes to tax filing." Now I don't really understand what that means, but I do understand that there's a lot of complexity and confusion with that law.

So here's what I want to do. I want to really illustrate the fact that people should contact Military OneSource. They should contact MilTax to explain their military situation, the complexities of their military life and allow a tax consultant to help them sort it all out. And this is maybe a good example. If you could talk about this new law and where it is and why people should contact MilTax to help sort this out.

Fred Koch:

Sure. Effective in 2023, Congress passed a new law that liberalized the choices the service member and their spouse have on where they have to file state taxes. Previously, the service member's active-duty pay was always considered taxed in the service member's legal domicile no matter where they were in the world. And the spouse's pay could be chosen, as of 2018, to either be taxed where they're currently stationed or in the service member's legal domicile.

That law was liberalized in 2023, that now the service member, for the first time ever, can choose where their military pay is taxed, either in their legal domicile in the state where they're stationed or the spouse's previously established and maintain legal domicile. That was never an option before.

And the spouse can now choose any one of those three locations for paying state taxes. The service member's legal domicile, which they could always choose; the state where they're living and working, which they could always choose; but now they can also choose their previously established and maintained legal domicile. The only caution we have with people is because federal law cannot dictate how states do taxes, the states

must acknowledge and accept that law change. So far, only one state has done that yet. That doesn't mean they won't. In the past, they have always accepted the federal law changes. They're just a little slow in documenting the fact that they're accepting that.

Bruce Moody:

Now, if any of that sounds confusing, if any of that sounds a little complicated, it has to be said that working this out before you file is infinitely easier than untangling all of that after you file. I'd really like you to kind of talk about that for us, please.

Fred Koch:

Yes, that's a very great point, because prior to filing taxes, we can do anything we want with checking out what works, what doesn't work, what am I really supposed to do? It's all just us and the papers or the software. Once we hit that transmit button, it's gone to the IRS and the state tax agencies. At that point, it's a permanent record. If we want to change anything, we have to go through a whole amendment process. It can be done.

We can explain how to do that, but it's a lot more work to amend it once we've put it in the mail so to speak, than it is to fix it before we go. So it's always best, any questions at all, get them addressed before you hit that send button. It's much easier to do then than to try and correct it after the fact.

Bruce Moody:

There we go. Fred, this has been a really interesting conversation. Just to wrap things up, what is step one? So we're going to put in the program notes. People, of course, anytime can contact Military OneSource. You can call, you can chat. We've got the numbers, the links, it's all there. But if somebody wants to just go in there and use the link and get started on their own, what should they expect to be doing?

Fred Koch:

Once you click on the link, you have to go through a validation process that you're eligible for it. They'll be using your DEERS information to validate you're eligible for the service. At that point, it'll take you to the MilTax website. You'll create an account there. Once on that site — very, very important — make sure you see the red, white and blue MilTax logo show up once you have created your account and log back in.

That will assure you that when you're done, you'll be asked to pay for \$0 for that tax return. You can start and stop anytime you want, you don't have to do it all in one sitting. Work through it as you go. If you have questions, you can stop, give us a call, answer the questions either while you're in the tax software, or any other time, then go back and pick it up from there. It does not have to be done all at once.

Bruce Moody:

Part of getting your taxes filed successfully and on time is maintaining your sanity. So can you give people maybe a word of encouragement? As all the tax forms are showing up in the mail and they're getting dropped off on the dining room table and the dining

room table is fast becoming this giant messy inbox, what words of encouragement do you have as far as what Military OneSource and MilTax has to offer?

Fred Koch:

Take your time. There's no rush. You've got time to do it. As soon as you come up with a question, call. Don't try and make yourself a big list and wait until you're ready to file to call and get the questions answered. When you have the question, call, get it addressed. That way you can put things in order. If you're missing information, you can find it ahead of time and not be pressed, "Oh, I've got to get it done today. How am I going to make this happen?" Give yourself a break, spread it out. You can start and stop as frequently as you want, and we're here to answer the questions at any time you have them.

Bruce Moody:

There we go. Fred Koch, thank you so much for joining us today.

Fred Koch:

You're welcome. Glad I could help.

Bruce Moody:

And Michelle Aldana, thank you also for helping us with today's podcast.

Michelle Aldana:

Thank you so much for having us. We're always happy to be able to share free resources for our service members and families. Military OneSource, all of our resources that we offer are at no cost to them. And if you're going to call Fred or the rest of the tax consultants, that won't cost anything for you. Whatever you do, whether it's taxes, finance questions, any questions in general, you can reach out to us. You can call us at 1-800-342-9647. You can do a live chat on militaryonesource.mil.

We have an app too. You can download that and press the "Connect With Us." So there's lots of little ways, but we know that our service members and their families do so much for us, so this is the least we can do is provide all of these free services to them. Thank you so much for having us here today.

Bruce Moody:

Well, thank you to the both of you. And Military OneSource is free, and it is free because Military OneSource is an official resource of the Defense Department. We always like to hear from you. We have a link in the program notes. Send us a question, a comment, maybe an idea for a future podcast. We do have a couple that we're working on, so keep the ideas coming in. Be sure to subscribe to this podcast wherever you listen to your podcast, because we cover a wide range of topics to help military families navigate military life. I'm Bruce Moody. Thank you for listening. Take care. Bye-bye.