

DEPARTMENT OF DEFENSE INFORMATION PAPER

SUBJECT: Tax Refunds Available for Certain Veterans that Received Disability Severance Payments since 1991

PURPOSE: To provide information on the DoD's efforts to notify identified Veterans about their ability to seek a tax refund for overpayments of tax on their Disability Severance Pay (DSP), in accordance with the Combat Injured Veterans Tax Fairness Act of 2016 (CIVTFA).

BACKGROUND: In accordance with tax law, DSP is not taxable if either: 1) the DSP paid for combat-related injuries determined by the Service at separation or; 2) the Veteran is eligible for disability compensation from the Department of Veterans Affairs (VA). The CIVTFA required the DoD to identify any Veterans that received DSP since January 17, 1991 who had tax withholdings applied to their DSP and notify the identified Veterans on how to claim a tax refund for their overpayment of tax on DSP.

KEY POINTS:

- Since the enactment of the CIVTFA on December 16, 2016, the DoD has identified more than 130,000 Veterans whose DSP was taxed that may be eligible for a tax refund attributable to their DSP.
- Starting on July 9, 2018, the DoD will start individually notifying the identified Veterans by letter through the US Postal Service. The DoD letter will be mailed per the following schedule:

Volume	700	700	12,600	21,000	21,000	21,000	21,000	21,000	11,062	Total:
Mail Date	7/9/18	7/10/18	7/11/18	7/12/18	7/13/18	7/16/18	7/17/18	7/18/18	7/20/18	130,062

- The identified Veterans will have one year from the date of the DoD notification letter to file for their refund, or three years since filing their tax return that reported their DSP, whichever is later.
- The DoD letter includes instructions, approved by the IRS, for Veterans to follow in order to receive their refund.
 - Veterans can submit a claim based upon their actual DSP by completing an amended tax return on Form 1040X.
 - However, the IRS has approved a simplified method by which Veterans can claim a standard refund amount on Form 1040X based upon when they received DSP.
 - \$1,750 for tax years 1991 – 2005
 - \$2,400 for tax years 2006 – 2010
 - \$3,200 for tax years 2011 – 2016
 - Claiming the standard refund amount is the easiest way for Veterans to claim a refund, because they do not need to access the original tax return from the year they received DSP.

July 18, 2018

- Veterans can submit a claim for the standard refund amount even if they have already filed a claim for the actual amount. In this instance, Veterans can only claim the difference between the standard refund amount above the amount previously claimed attributable to DSP.
- Veterans claiming refunds for tax overpayments attributable to taxation of their DSP should write either “Veteran Disability Severance” or “St. Clair Claim” across the top of the front page of their Form 1040X, and mail the Form 1040X and a copy of the DoD notification letter to:

Internal Revenue Service
333 W. Pershing Street, Stop 6503, P5
Kansas City, MO 64108.

- Veterans that did not receive the DoD letter may still be eligible for a refund. These Veterans can file an amended tax return on Form 1040X with the following documentation to verify the DSP and its eligibility for tax exclusion:
 - A copy of DD Form 214 or other documentation from the Defense Finance and Accounting Services (DFAS) showing the exact amount and reason for DSP; and
 - A copy of either the VA determination letter confirming disability compensation eligibility or a determination by the Service at the time of separation that the injury related to the DSP was incurred:
 - as a direct result of armed conflict, while engage in extra hazardous service; or
 - during simulated war exercises; or
 - by an instrumentality of war.
- Veterans that did not receive the DoD letter and do not have the required documentation to file a claim for refund should contact the National Archives, [National Personnel Records Center](#), or the Department of Veterans Affairs.
- Veterans can receive further information regarding the CIVTFA and the procedures for filing a claim for refund for overpayments of tax related to DSP by going to the following websites:
 - DFAS (https://www.dfas.mil/dsp_irs.html); or
 - IRS (<https://www.irs.gov/individuals/military/combat-injured-veterans-tax-fairness-act-claim-information-available>).