

# Combat-Injured Veterans Tax Fairness Act of 2016

The **Combat-Injured Veterans Tax Fairness Act of 2016** directed the Secretary of Defense to identify disability severance payments paid after January 17, 1991, that were included as taxable income on Form W-2, Wage and Tax Statement, but were later determined to be nontaxable and to provide notice of the amount of that payment.

**Step 1: Check that the veteran has received a letter reporting the amount of the disability severance payment.**

Veterans impacted by this change should receive a letter reporting the amount of the disability severance payment. This is needed for the amendment process. Veterans that did not receive the Department of Defense letter mailed to them in July 2018 and do not have the required documentation to file a claim for refund (which includes documentation showing the exact amount of and reason for the disability severance payment) should contact the National Archives, National Personnel Records Center, or the Department of Veterans Affairs. They can also send an email to [dfas.cleveland-oh.jjf.mbx.dfas-irs-combat-injured-veterans-tax-f@mail.mil](mailto:dfas.cleveland-oh.jjf.mbx.dfas-irs-combat-injured-veterans-tax-f@mail.mil).

Veterans with questions about this topic can call the IRS toll free at (833) 558-5245 ext. 378.

**Step 2: Confirm whether the taxpayer would like to use the simplified or actual method to file their claim. See below for specific documentation required for the actual method.**

## Simplified method:

- Basic certification required
- Original tax return information not necessary
- Based on standard refund amount
- Simply write "Disability Severance Payment" on Form 1040X, line 15, and enter the standard refund amount listed below on line 15, column B, and on line 22, leaving the remaining lines blank.
  - For tax years 1991-2005, standard refund amount is \$1,750.
  - For tax years 2006-2010, standard refund amount is \$2,400.
  - For tax years 2011-2016, standard refund amount is \$3,200.

## Actual method:

- Advanced certification required
- **Original tax return information required** – this method calculates the actual refund amount attributable to the lump sum disability severance payment

**Step 3: Make copies of necessary documents and complete the amendment. Have the taxpayer sign the 1040X, attach a copy of the DoD letter, and mail the return.**

All veterans claiming refunds for overpayments attributable to their lump-sum disability severance payments should **write across the top of the front page of the Form 1040X** either "Veteran Disability Severance" or "St. Clair Claim." Because all amended returns are filed on paper, veterans should **mail their completed Form 1040X, with a copy of the DoD letter**, to:

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

## Things to know:

- **There is a deadline:** Eligible taxpayers must file the 1040X **by the later of 1 year after the date of receiving the letter or the normal deadline for filing a claim for refund or credit.** The normal deadline is the later of 3 years from filing the original return or 2 years after paying the tax.
- If the estate of a **veteran who is now deceased** receives the letter, the estate may file a claim. The estate will need to submit the 1040X, a copy of the letter, and Form 1310 if anyone other than the surviving spouse is filing the claim.
- The IRS will pay interest on the refund amount.

## Combat-Injured Veterans Frequently Asked Questions:

**Q:** My disability severance pay was reported on a W-2 as taxable income. I included it in my taxable income but have not received a notice from the Department of Defense to inform me of how to correct this error. How do I claim my credit or refund?

**A:** File Form 1040X for the year the disability severance payment was made. **Include both of the following:**

1. A copy of documentation showing the exact amount of and reason for your disability severance payment, such as a letter from the Defense Finance and Accounting Services (DFAS) explaining the severance payment at the time of the payment or a Form DD 214, **and**
2. A copy of either the VA determination letter confirming your disability or a determination that your injury or sickness was either incurred as a direct result of armed conflict, while in extra-hazardous service, or in simulated war exercises, or was caused by an instrumentality of war.

**Q:** May I claim the standard refund amount even if I already excluded my disability severance payment from my income?

**A:** Yes, you may claim the standard amount even if you already filed Form 1040X to claim a refund based on the actual amount of the overpayment attributable to the disability severance payment. But, you must reverse your prior claim by reporting the amount of the disability severance payment as a positive number on line 1 in column B. Then, enter the standard refund amount on line 15, column B, as described in the previous question as you complete the rest of Form 1040X.

**Q:** May I claim a refund based on the actual amount of my disability severance payment if I already claimed the standard amount?

**A:** Yes, you may claim a refund based on the actual amount of the overpayment attributable to the disability severance payment even if you already filed Form 1040X to claim the standard amount. But, you must reverse your prior claim by reporting the standard refund amount on line 15, column B, as a negative amount as you complete the rest of Form 1040X.

**Q:** Can I use the "Where's My Amended Return?" Tool to track the status of my amended return?

**A:** Yes, but only if the disability severance payment was made in 2014 or later. Where's My Amended Return? only tracks a claim for the current year and up to three prior years. Amended return processing can take up to 16 weeks to complete.



**Defense Finance & Accounting Service**  
% Department of the Treasury  
**Internal Revenue Service**  
333 W Pershing St Stop 6503, P5  
Kansas City, MO 64108

Date: July 16, 2018

---

SUBJECT: Combat-Injured Veterans Tax Fairness Act of 2016

Dear Veteran:

On December 16, 2016, the President of the United States signed into law the Combat-Injured Veterans Tax Fairness Act of 2016, which provides eligible veterans the right to seek a refund of taxes they may have paid on Disability Severance Pay. The Defense Finance and Accounting Service (DFAS) and the Internal Revenue Service (IRS) are jointly responsible for ensuring that you receive notification of your rights under this new law.

Our records show that you received Disability Severance Pay in the amount of \$21,027.60 upon your separation from military service in 2002. If your Disability Severance Pay was taxed, you may be eligible for a refund of those taxes. Your eligibility for a refund depends upon the circumstances of your separation.

Disability Severance Pay is not taxable or subject to federal income tax withholding if you meet the circumstances of either 1 or 2 below.

1. You have a combat related injury or illness as determined by your military service at separation that:
  - Resulted directly from armed conflict; or
  - Took place while you were engaged in extra-hazardous service; or
  - Took place under conditions simulating war, including training exercises such as maneuvers; or
  - Was caused by an instrumentality of war.
2. You are receiving VA disability compensation or you have received notification from the VA approving such compensation.

---

Finally, while the time to request a refund of taxes is generally 3 years, the new law provides that you may still claim a refund within 1 year from the date of this letter if that period has expired.

In accordance with IRS's current policy, IRS agreed to forward this letter to you on behalf of DFAS because we do not have current addresses for individuals affected by the new law. The IRS has not disclosed your address or any other tax information to DFAS.

If you believe you are eligible for or would like to request a refund of taxes, you must seek a refund from the IRS by following the IRS's instructions below.

**Letter 6060-A (7-2018)**  
Catalog Number 71257P

**What you should do**

Complete and mail IRS Form 1040X, Amended U.S. Individual Income Tax Return, for the year you received Disability Severance Pay, along with a copy of this letter, to the IRS's Kansas City address shown at the bottom of this letter.

You can submit a claim based on the actual amount of your Disability Severance Pay by completing Form 1040X, and following the instructions carefully. Don't request a refund based on the actual amount if you have previously done so.

You can choose instead to claim the standard refund amount listed below that reflects the year you received your Disability Severance Pay. Simply write "Disability Severance Pay" on Form 1040X, line 15, and enter the standard refund amount listed below on line 15, column B, and on line 22, leaving the remaining lines blank.

- \$1,750 for tax years 1991-2005
- \$2,400 for tax years 2006-2010
- \$3,200 for tax years 2011-2016

Claiming a standard refund amount is the easiest way to request a refund because it doesn't require you to find your original tax return or ask the IRS for information from the return. This may be larger or smaller than the refund based on the actual amount from your return. You can submit a claim for the standard refund amount even if you already filed a claim for the actual amount. If you do this, you can only claim the difference between the standard refund amount above and the amount you previously claimed that was attributable to Disability Severance Pay.

**How to file your claim**

Please write either "Veteran Disability Severance" or "St. Clair Claim" across the top of the front page of the Form 1040X that you will be submitting and provide an explanation in Part III of why the Disability Severance Pay is not taxable to you.

Send the completed Form 1040X and a copy of this letter to the following address:  
Internal Revenue Service  
333 W. Pershing Street, Stop 6503, P5  
Kansas City, MO 64108

**Additional Information**

You can get Form 1040X from the IRS website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676). If you have questions, visit the Recent Developments section of the Form 1040X web page at [www.irs.gov/Form1040X](http://www.irs.gov/Form1040X) or call the IRS toll-free at (833) 558-5245, ext. 378, between 7 a.m. and 7 p.m. (Alaska and Hawaii follow Pacific time). If you prefer, you can write to the IRS at the Kansas City address above.

Sincerely,

Defense Finance and Accounting Service