The Combat Zone Tax Exclusion (CZTE) is a provision that exempts all or a portion of earnings from federal income taxes while an active duty Sailor is deployed to a designated combat zone. This can mean more money in your pocket and an opportunity to achieve financial goals like paying off debt and saving for retirement.

**WHAT IT MEANS FOR YOU**

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**HOW DOES IT WORK?**

In most cases, if you are serving one or more days in a designated combat zone, federal income taxes are excluded on the following military compensation:

- **Basic Pay** — Every month you are present in a combat zone with some exceptions
- **Incentive Bonuses or Continuation Pay** — You can exclude this income if the reenlistment or the execution of the contractual agreement for continued service occurs while present in a combat zone.
- **School Loan Repayments** — You can exclude part of the repayment associated with the months you were present in a combat zone. For example, if a year is required to earn the repayment and you serve six of those months in a combat zone, you can exclude half of the repayment income.
- **Imminent Danger/Hostile Fire Pay** — You can exclude all of this income.
- **Leave Benefits** — You can exclude income from selling accrued leave earned while in a combat zone.
- **Awards and Other Financial Incentives** — You can exclude associated income for submissions made while in a combat zone.

You do not have to do anything to sign up or enroll. It is automatically reflected on your LES and W-2. Review both for confirmation.

Income earned while hospitalized as the result of an injury sustained in a combat zone is tax-exempt. Medicare and Social Security taxes are still applicable.

**WHOM DOES IT IMPACT?**

- CZTE is unlimited for enlisted Sailors.
- Pay for some officers is excluded to the maximum rate for enlisted members plus imminent danger or hostile fire pay.

**THRIFT SAVINGS PLAN (TSP) LIMITS**

The maximum contribution (called the elective deferral) to a Thrift Savings Plan account is $19,000 and the catch-up provision for those over 50 is $6,000 (2019). Additionally, you can contribute up to the annual limit of $56,000, but any amount over the elective deferral is considered a traditional contribution and its earnings will be taxed at withdrawal.

For 2020, these numbers increase to $19,500 ($26,000 for those over age 50) and $57,000 for the annual limit.

If you are covered under the BRS, your service automatic (1%) and matching contributions apply to the annual limit and are treated as traditional contributions which will be taxed at withdrawal.
Typically, contributions to a Roth IRA are after-tax and withdrawals are tax-free (additional rules may apply). If you qualify for the CZTE, your Roth contributions to the TSP and/or a Roth IRA will be made with income that has not been taxed when earned and will not be taxed at withdrawal. It is a huge opportunity to boost retirement savings!

**SPECIAL CONSIDERATIONS FOR RETIREMENT ACCOUNTS**

Remember, in the case of the TSP and Roth IRA, these are retirement accounts. You cannot access this money until the age of 59½ without penalty and tax consequences. Plan ahead, examine your budget, then contribute as much as possible to your Roth TSP and Roth IRA to take full advantage of this tax benefit, if it makes sense for your situation.

**WANT TO LEARN MORE? CHECK OUT THESE RESOURCES!**


DoD Definition: [militarypay.defense.gov/Pay/Tax-Information/CZTE/](http://militarypay.defense.gov/Pay/Tax-Information/CZTE/)

Military Pay Tables: [www.dfas.mil/militarymembers/payentitlements/Pay-Tables.html](http://www.dfas.mil/militarymembers/payentitlements/Pay-Tables.html)

Combat Zones: [www.dfas.mil/militarymembers/payentitlements/Pay-Tables/CZ1.html](http://www.dfas.mil/militarymembers/payentitlements/Pay-Tables/CZ1.html)

TSP Limits: [www.tsp.gov/PlanParticipation/EligibilityAndContributions/contributionLimits.html](http://www.tsp.gov/PlanParticipation/EligibilityAndContributions/contributionLimits.html)