

IRS News Release

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Certain Payments to Disabled Veterans Ruled Tax-Free; Some May Be Due Refunds

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WASHINGTON — Payments under the Department of Veterans Affairs (VA) Compensated Work Therapy (CWT) program are no longer taxable and disabled veterans who paid tax on these benefits in the past three years can now claim refunds, the Internal Revenue Service said today.

Recipients of CWT payments will no longer receive a Form 1099 from the Department of Veterans Affairs. Disabled veterans who paid tax on these benefits in tax-years 2004, 2005 or 2006 can claim a refund by filing an amended return using IRS Form 1040X. According to the VA, more than 19,000 veterans received CWT in Fiscal Year 2007.

The IRS agreed with a U.S. Tax Court decision issued earlier this year, which held that CWT payments are tax-free veterans' benefits. In so doing, the agency reversed a 1965 ruling which held that these payments were taxable and required the VA to issue 1099 forms to payment recipients.

According to the VA, the CWT program provides assistance to veterans unable to work and support themselves. Under the program, the VA contracts with private industry and the public sector for work by veterans, who learn new job skills, re-learn successful work habits and regain a sense of self-esteem and self-worth.