

# FACT SHEET

## Assisting Veterans with Lump-Sum Disability Severance Pay Refunds



*This document provides guidance for assisting with preparing 1040x Amended Tax Returns as a result of the Combat-Injured Veterans Tax Fairness Act passed in 2016.*

**Background:** SPEC and its partners have a great opportunity to assist some disabled veterans who sacrificed for our country and, after separation, received a lump-sum disability severance payment that was inadvertently taxed. As a result of the Combat-Injured Veterans Tax Fairness Act, in July 2018, over 130,000 veterans received a letter from the Department of Defense (DoD) explaining how to claim the refund. They have the option to use the actual amount of their severance payment to claim their refund or the simplified method, claiming a standard refund amount based on the calendar year (an individual's tax year) in which they received the severance payment.

### Two options for veterans to claim a disability severance pay (DSP) tax refund:

1. The [simplified method](#) can be used to claim a standard refund amount that doesn't require veterans to have the original tax return or contact the IRS to obtain information from the tax return. The standard refund amount may be larger or smaller than the refund based on the actual amount of their DSP from the original return.
2. Veterans can submit a claim based on the **actual** amount of their DSP by completing [Form 1040X](#), carefully following the [instructions](#) for Form 1040X.

SPEC has approved the use of the simplified method as **within the scope** of service for VITA/TCE programs. Additionally, SPEC has made allowances to its Quality Site Requirements so partners can prepare Form 1040X more efficiently for veterans who choose to use the simplified method. It's also at the site's discretion to allow volunteers certified in Advanced to complete traditional 1040X returns for this refund but only if required information and tax preparation software is available.

### Completing Form 1040X using the Simplified Method (See Job Aid for specific details)

Using the calendar year (the individual's tax year) in which they received the severance payment. Write "Disability Severance Payment" on line 15 of Form 1040X and enter on lines 15 and 22 the **standard refund amount** listed below that applies:

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

### Simplified Method for survivors receiving Letter 6060-D

Survivors of veterans who received Letter 6060-D that their spouse or relative qualified for DSP tax refunds can also submit a claim for credit or refund. Additional steps may include:

- IRS Form 1310, *Statement of Person Claiming Refund Due a Deceased Taxpayer*, must accompany Form 1040X, unless the person filing the return is the surviving spouse of the service member and filed a joint tax return with the service member for the year the veteran received Disability Severance Pay.
- Modifying the example explanation for Part III of Form 1040X as follows:  
"I attest my \_\_\_\_\_ (spouse or other) met the circumstances listed in attached Letter 6060-D which entitles the estate to receive a refund of taxes withheld from the Disability Severance Pay issued to my \_\_\_\_\_ (spouse or other) in XXXX. A DSP refund claim has not been previously filed."

### **Veterans who did not receive a letter**

- Veterans eligible for a refund who did not receive a letter from DoD may still file Form 1040X to claim a refund but must include the required documentation listed in Publication 3, Armed Forces' Tax Guide.
- Veterans who do not have the required documentation to file a claim should contact the [National Archives, National Personnel Records Center](#), or the [Department of Veterans Affairs](#).
- Veterans who have not received a letter or have a question regarding the Combat Injured Veterans Tax Fairness Act can send an email to DFAS at [dfas.cleveland-oh.jif.mbx.dfas-irs-combat-injured-veterans-tax-f@mail.mil](mailto:dfas.cleveland-oh.jif.mbx.dfas-irs-combat-injured-veterans-tax-f@mail.mil).

### **Exceptions to SPEC policy and Quality Site Requirements (QSR)**

- Simplified method for preparing Form 1040X for DSP tax refunds is approved as within scope for volunteers with Basic or higher certification. These returns can be prepared without using tax software. A fillable Form 1040X is available at [irs.gov](https://irs.gov).
- At the site's discretion, volunteers certified in Advanced may prepare a traditional Form 1040X for DSP refunds but only if the tax preparation software is available and the taxpayer has a copy of the prior year return and all required information.

To ensure consistency, the following process to the QSR will apply.

#### **QSR #1 Certification – minimum tax law certification requirement:**

- Basic - if using simplified method.
- Advanced - if completing traditional Form 1040X.

#### **QSR #2 Intake/Interview and Quality Review**

Using the simplified method, veterans will only be required to complete the personal information section in Part I of Form 13614-C. The following questions should be addressed:

- Does the veteran meet the circumstances listed in Letter 6060-A (or 6060-D) to qualify for DSP tax refund?
- Did the veteran previously file and receive a DSP tax refund or exclude the DSP from their original Form 1040?

#### **QSR #4 Reference materials**

Sites are encouraged to maintain copies of this Fact Sheet and the attached Job Aid for completing Form 1040X

#### **QSR #6 Timely filing tax returns**

Forms 1040X cannot be e-filed. Volunteers should remind veterans to mail their Form 1040X to the IRS address provided within one year from the date of their Letter 6060-A (or 6060-D).

#### **Additional information:**

- IRS will pay interest on Veterans' DSP tax refunds. Note: IRS will issue a Form 1099-INT.
- A claim can be filed for the standard refund amount even if the veteran or estate already filed a claim for the DSP actual amount or excluded the DSP from their original Form 1040, in which case, the veteran or estate can only claim the difference between the standard refund amount and the tax on the DSP amount.

#### **Additional resources:**

- More [information](#) on this issue is available on IRS.gov along with [FAQs](#)
- Veterans may contact the [National Archives, National Personnel Records Center](#), or the [Department of Veterans Affairs](#) to obtain their required documentation for submission
- [Defense Finance and Accounting Service website](#)



# Assisting Veterans with Lump-Sum Disability Severance Pay Refund Continued

Form 1040X (Rev. 1-2018)

Page **2**

**Part I Exemptions**

Complete this part **only** if any information relating to exemptions has changed from what you reported on the return you are amending. This would include a change in the number of exemptions, either personal exemptions or dependents.

See Form 1040 or Form 1040A instructions and Form 1040X instructions.

		A. Original number of exemptions or amount reported or as previously adjusted	B. Net change	C. Correct number or amount
24	Yourself and spouse. <b>Caution:</b> If someone can claim you as a dependent, you can't claim an exemption for yourself . . . . .	24		
25	Your dependent children who lived with you . . . . .	25		
26	Your dependent children who didn't live with you due to divorce or separation . . . . .	26		
27	Other dependents . . . . .	27		
28	Total number of exemptions. Add lines 24 through 27 . . . . .	28		
29	Multiply the number of exemptions claimed on line 28 by the exemption amount shown in the instructions for line 29 for the year you are amending. Enter the result here and on line 4 on page 1 of this form. . . . .	29		
30	List <b>ALL</b> dependents (children and others) claimed on this amended return. If more than 4 dependents, see instructions.			

(a) First name	Last name	(b) Dependent's social security number	(c) Dependent's relationship to you	(d) Check box if qualifying child for child tax credit (see instructions)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

**Part II Presidential Election Campaign Fund**

Checking below won't increase your tax or reduce your refund.

- Check here if you didn't previously want \$3 to go to the fund, but now do.
- Check here if this is a joint return and your spouse did not previously want \$3 to go to the fund, but now does.

**Part III Explanation of changes.** In the space provided below, tell us why you are filing Form 1040X.

▶ Attach any supporting documents and new or changed forms and schedules.

I attest I met the circumstances listed in attached Letter 6060-A which entitles me to a refund of taxes withheld from the Disability Severance Payment issued to me in XXXX. I have not previously filed a DSP refund claim.

*Provide an explanation in Part III of Form 1040X. The following is an example of explanation that can be used:*

*"I attest I met the circumstances listed in attached Letter 6060-A which entitles me to a refund of taxes withheld from the Disability Severance Payment issued to me in XXXX. I have not previously filed a Disability Severance Payment refund claim."*

**Remember to keep a copy of this form for your records.**

Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief, this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information about which the preparer has any knowledge.

**Sign Here**

▶  
 Your signature \_\_\_\_\_ Date \_\_\_\_\_ Your occupation \_\_\_\_\_

▶  
 Spouse's signature. If a joint return, **both** must sign. \_\_\_\_\_ Date \_\_\_\_\_ Spouse's occupation \_\_\_\_\_

**Paid Preparer Use Only**

▶  
 Preparer's signature \_\_\_\_\_ Date \_\_\_\_\_ AARP Tax Aide  
 Firm's name (or yours if self-employed)  
 123 Main St. Anywhere, FL 30001  
 Firm's address and ZIP code

Print/type preparer's name \_\_\_\_\_  
 PTIN S12345678  Check if self-employed \_\_\_\_\_  
 Phone number \_\_\_\_\_ EIN \_\_\_\_\_

For forms and publications, visit IRS.gov.

Form **1040X** (Rev. 1-2018)

**Sign & Date Form 1040X on page 2 and attach copy of letter from DFAS (Letter 6060-A or 6060-D)**

**Mail Form 1040X & attachments to:**

**Internal Revenue Service**

**333 W. Pershing Street, Stop 6503, P5**

**Kansas City, MO 64108**