

Nontaxable Combat Pay Election and the Earned Income Tax Credit

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1. Introduction

It is no secret that the U.S. Federal income tax system has become increasingly complex as policy makers use it to provide income support to targeted populations and incentives to support certain behaviors. In light of this continuing trend, the tax policy community should further its understanding of whether taxpayers are benefiting from these programs or are simply too confused to figure out how to take advantage of the tax benefits being made available. In addition, policymakers need to determine whether taxpayers can navigate the tax code on their own or if a paid preparer is required for tax minimization. In this paper, we shed light on these questions by examining the use of the nontaxable combat pay election (NCPE) by military personnel eligible to claim the Earned Income Tax Credit (EITC), a refundable tax credit targeted to lower income working families.

Combat pay includes all military pay—including wages earned as well as any reenlistment or other bonuses, etc.—received during a month in which a service member was stationed in a combat zone for at least one day. Combat pay is exempt from income taxes, thus providing military personnel with additional compensation for serving in dangerous areas.² Prior to 2005, combat pay was not counted as earned income for the purposes of calculating the EITC. In 2004, the U.S. General Accounting Office (GAO) issued a report demonstrating that the exclusion of combat pay from the EITC calculation reduced the EITC for some of the lowest income members of the armed forces while increasing EITC eligibility among others, generally with higher total incomes. As a result, the Working Families Tax Relief Act of 2004 gave taxpayers the option (election) to include combat pay in EITC earned income. The **Heroes Earnings Assistance and Relief Tax Act of 2008** made this change permanent. In this study, we analyze the use of this election. There is evidence that taxpayers may not fully understand the relationship between their earnings and the amount of EITC that they could claim (Chetty and Saez, 2013). Due to the complex structure of the EITC itself, taxpayers may not understand when to include or exclude combat pay in order to minimize their income taxes.

In this paper, we combine administrative tax data and Department of Defense (DOD) personnel data to determine the extent to which military service personnel make the optimal election (i.e., correctly use combat pay to maximize their EITC). We examine the demographic and financial characteristics of these taxpayers for each category of optimization behavior. In addition, we estimate the extent to which the exclusion of combat pay increases EITC eligibility among personnel serving in combat zones. Finally, we estimate the aggregate cost associated with the NCPE and the cost of increasing eligibility to personnel who would not otherwise qualify for the EITC.

We find that offering taxpayers a choice about how to treat their combat pay for the purposes of earned income in the EITC calculation results in some taxpayers failing to make the optimal decision. We also show that taxpayers are less likely to make the tax-minimizing choice if they are low income, if they prepare their own tax returns, or when the optimal choice is more complicated. Although the NCPE has a small effect on the total cost of the combat pay exclusion, it does affect the distribution of those benefits among similarly positioned military personnel.

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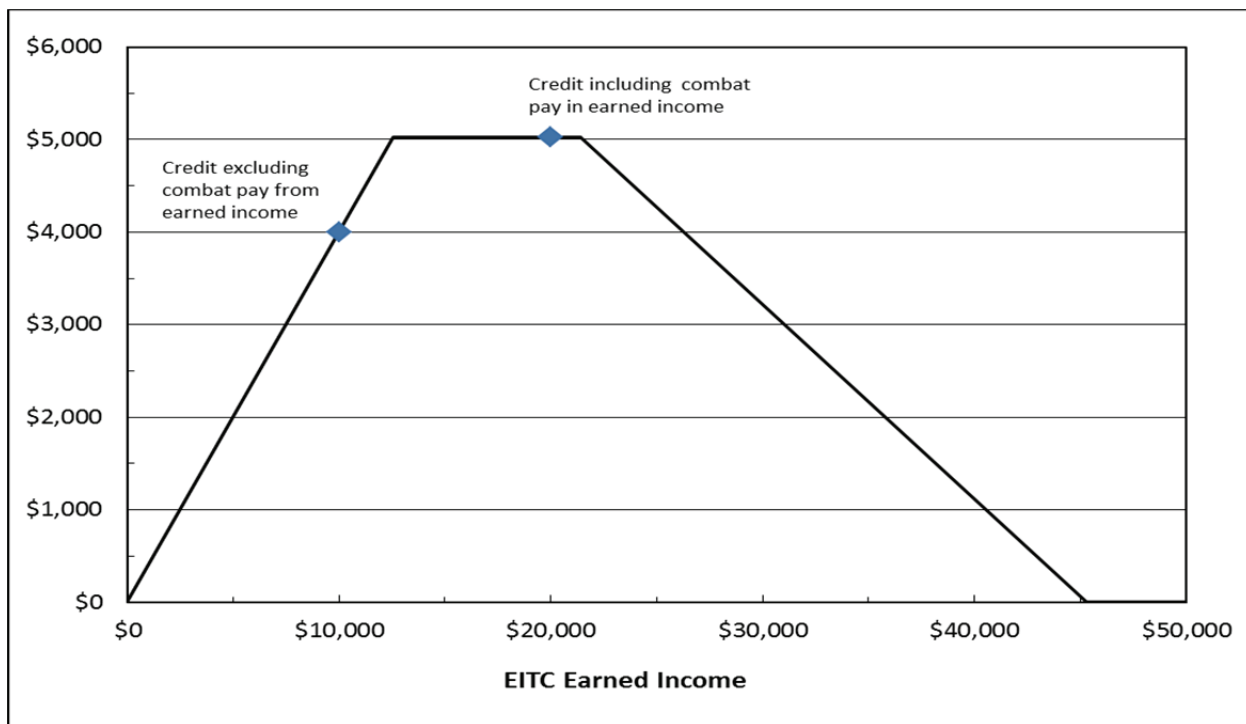
² Combat pay is exempt from income taxes, but is subject to payroll taxes.

2. Background

The EITC is a refundable tax credit that provides work incentives to lower income households. In Tax Year 2009, about 27 million families claimed the EITC, representing almost 20 percent of all tax returns filed (Statistics of Income, 2011). The EITC schedule has a trapezoidal shape in which the credit phases in with earnings, plateaus, and then phases out with the greater of earnings and adjusted gross income (AGI). The EITC schedule depends on filing status and number of EITC qualifying dependents. Single filers with no dependents have the least generous EITC schedule and were eligible for a maximum credit of \$457 in 2009. Married couples filing jointly with three or more EITC qualifying children have the most generous EITC schedule, being eligible for a maximum credit of \$5,657 in 2009.

Figure 1 provides an example of how the NCPE can increase the amount of EITC claimed by a taxpayer. If a taxpayer includes nontaxable combat pay in EITC earned income, then he is required to include the entire amount of it; he can't include just a portion of his combat pay to achieve an even greater credit amount. The figure presents the 2009 EITC schedule for a married couple filing jointly with two children who have \$10,000 in taxable wages and \$10,000 in nontaxable combat pay. By default, nontaxable combat pay is excluded from EITC earned income. Thus, if the family does not use the NCPE, then they would claim an EITC of \$4,000. However, if the family were to include their nontaxable combat pay, then their EITC earned income increases to \$20,000 and their EITC would increase by over \$1,000 from \$4,000 to \$5,028. This example demonstrates the potentially significant reductions in EITC when nontaxable combat pay is excluded from EITC earned income.

FIGURE 1. 2009 Earned Income Tax Credit for a Married Couple Filing Jointly With Two Children, \$10,000 in Taxable Wages, and \$10,000 in Combat Pay



3. Data

For this study, we constructed an individual-level dataset containing the population of EITC-eligible military personnel with nontaxable combat pay by combining military personnel data with tax return data for Tax Years 2005-2009. Military personnel data come from the U.S. Department of Defense (DOD) and include characteristics such as pay grade, service branch (Army, Navy, Marines, or Air Force), and component (active, reserve, or National Guard). Base salary, also known as the pay grade, for military personnel is determined by service, rank and tenure. Individual tax return and Form W-2 wage data from the Internal Revenue Service (IRS) Compliance Data Warehouse (CDW) were matched to the DOD personnel data. The tax return data consist of financial items reported on the IRS Form 1040, as well as filing characteristics such as filing status and the use of a paid preparer. Because tax return data are reported by

tax unit (which sometimes includes a spouse and children), variables such as AGI are aggregated across individuals within a tax unit. In contrast, W-2s are reported at the individual level. W-2s for each person in the DOD personnel data were extracted and summed across employers to calculate total W-2 wages. As of 2005, nontaxable combat pay is reported by the military in Box 12 of Form W-2 using Code Q.

The sample is restricted to personnel with nontaxable combat pay reported on their W-2s who are eligible to claim the EITC.³ Personnel are considered eligible if they satisfy all the EITC requirements listed in the IRS Form 1040 instructions, or if they claim the EITC on their tax return.⁴ The sample consists of 987,454 individuals, representing over 30 percent of the personnel with nontaxable combat pay over the 5-year period. Each individual represents one tax unit. For filers who claim the EITC, we take the number of EITC qualifying dependents as given. For filers who do not claim the EITC, we assume that the number of EITC qualifying dependents equals the number of exemptions claimed for children living at home. The sample includes personnel who do not file a Federal tax return, but appear to be eligible for the EITC based on their W-2 wages. For nonfilers, a simplified tax return was constructed based on their W-2 data and DOD demographic characteristics, where W-2 wages were assumed to be the only source of taxable earned income and the number of dependents under age 17 was assumed to be the number of qualifying EITC children. Nonfilers represent 5 percent of the sample and are assumed to be nonoptimizers. Spouses who both report nontaxable combat pay are counted as two tax unit observations in the data. These dual-military couples make up less than 2 percent of the EITC-eligible military personnel population with nontaxable combat pay.

4. Analysis

4.1 Nontaxable Combat Pay Election

To determine if a taxpayer uses the NCPE in such a way as to maximize EITC, we calculated the EITC both including and excluding nontaxable combat pay in EITC earned income.^{5,6} These amounts were compared to the EITC calculated with the earned income reported on the IRS Form 1040. The taxpayer was considered an optimizer when the EITC calculated using his IRS Form 1040 reported earned income equaled the largest credit. Individuals who do not claim the EITC, including nonfilers, are classified as nonoptimizers. These calculations reveal that only 5.6 percent of EITC-eligible combat personnel take advantage of the NCPE. Given that nearly 75 percent have taxable earned income higher than the first EITC kink and the average amount of nontaxable combat pay is large (\$22,519), it is not surprising that such a small percentage of EITC-eligible combat personnel elect to include combat pay in their EITC earned income.

Table 1 provides characteristics for those who do not optimize the EITC in column 1 and for those who do optimize the EITC in column 2. More than 80 percent of those combat personnel eligible for the EITC maximize their credit. The distributions by service and pay grade are roughly the same across the two groups with the sample of optimizers containing fewer National Guard and reserve personnel. On average, nonoptimizing personnel are slightly older, more likely to file as single or head of household as opposed to married filing jointly, and have lower AGI than optimizing personnel.

Most nonoptimizers (62 percent) are filers who do not claim the EITC. The remaining nonoptimizing personnel are either nonfilers (31 percent), claim the EITC and use the NCPE (4 percent), or claim the EITC and do not use the NCPE (3 percent). By construction, all optimizers claim the EITC. Among optimizers, 6 percent use the NCPE. A higher percentage of optimizing personnel have at least one EITC qualifying dependent compared to nonoptimizing personnel (82 percent versus 48 percent). This difference in optimization rates is consistent with historical participation rates by number of children, which show that taxpayers eligible for the childless EITC have lower take-up rates than EITC-eligible taxpayers with children.⁷ Average nontaxable combat pay among nonoptimizing personnel is \$23,635,

³ Individuals with missing DOD personnel data were dropped from the sample. In addition, individuals who claim the EITC and have zero reported EITC earned income were excluded. These individuals represent less than 1 percent of the sample.

⁴ Personnel who do not originally claim the EITC, were deemed eligible if adjusted gross income and investment income were below means-tested thresholds and age and filing status requirements were satisfied. Furthermore, personnel not originally claiming the EITC were considered eligible only if they could claim a positive EITC with either the inclusion and/or exclusion of nontaxable combat pay in EITC earned income. The authors acknowledge that these requirements do not perfectly characterize the sample of EITC-eligible personnel due to unobservable idiosyncratic circumstances.

⁵ The continuous EITC formula was used to calculate the amount of EITC originally claimed and the counterfactual EITC. Taxpayers may report a different amount of EITC claimed because the IRS Form 1040 instructions refer taxpayers to a table to look up the amount of EITC.

⁶ For dual-military couples, an analogous methodology was applied to calculate the EITC under four mutually exclusive scenarios for each member of the couple: (1) exclude all combat pay; (2) include own combat pay; (3) include spouse's combat pay; and (4) include the sum of own combat pay and spouse's combat pay.

⁷ According to Plueger (2009), the take-up rate of the childless EITC was 56 percent, which is substantially lower than the take-up rates of those with 1 child (74 percent) and 2 or more children (86 percent) in Tax Year 2005. Similarly, a study by the U.S. General Accounting Office (2001) shows that the 1999 EITC take-up rate among childless taxpayers was significantly lower than the take-up rate among taxpayers with children.

which is higher than the average for optimizing personnel (\$21,877). Nonoptimizers are also less likely to use a paid preparer. Twenty-eight percent of nonoptimizers use a paid preparer, which includes people who incorrectly apply the NCPE as well as personnel who do not claim the EITC.

Table 2 depicts EITC optimization rates for subpopulations of personnel by optimal strategy and paid tax preparer use. Overall, 6.5 percent of the population should elect to include their combat pay to maximize their EITC. Even though the proportion of personnel using paid tax preparers is higher among personnel who should include their combat pay (57 percent versus 54 percent), their optimization rates are lower than personnel who should exclude their combat pay (71 percent versus 83 percent). Higher observed optimization rates among those who should exclude their combat pay could be partially explained by the design of the policy, which defaults to excluding nontaxable combat pay from the EITC calculation.

TABLE 1. Sample Summary Statistics by Earned Income Tax Credit (EITC) Optimization, Tax Years 2005–2009

Characteristics	(1) Do Not Optimize the EITC		(2) Optimize the EITC	
	Share or Mean	Standard Deviation	Share or Mean	Standard Deviation
Distribution Across Military Service Branches				
Army	72%		65%	
Air Force	09%		13%	
Marines	08%		10%	
Navy	11%		13%	
Total	100%		100%	
Distribution Across Military Component				
National Guard	21%		13%	
Reserves	14%		09%	
Active	66%		78%	
Total	100%		100%	
Distribution Across Pay Grades^a				
Enlisted: Pay Grade ME01-ME03	9%		7%	
Enlisted: Pay Grade ME04	31%		27%	
Enlisted: Pay Grade ME05	27%		29%	
Enlisted: Pay Grade ME06	15%		19%	
Enlisted: Pay Grade ME07-ME09	8%		10%	
Officer	10%		8%	
Total	100%		100%	
Other Characteristics				
Age	31.05	(7.19)	30.16	(6.51)
Single	29%		16%	
Married Filing Jointly	59%		74%	
Head of Household	12%		10%	
Any EITC Qualifying Dependents	48%		82%	
Earned Income Tax Credit	\$626	(1,249)	\$2,315	(1,561)
Adjusted Gross Income	\$12,127	(14,047)	\$17,522	(10,756)
Nontaxable Combat Pay	\$23,635	(16,004)	\$21,887	(14,970)
Paid Preparer	28%		60%	
Claim EITC	7%		100%	
Nonfiler	31%		0%	
Use Nontaxable Combat Pay Election	4%		6%	
Observations	172,808		814,559	
Share	17.5%		82.5%	

NOTE: Monetary variables are in 2009 dollars. Totals may not add to 100% due to rounding.

^a See footnote to Table 4 for pay grade salaries.

TABLE 2. Optimization Rates by Optimal Strategy and Use of a Paid Tax Preparer, Tax Years 2005–2009

Item	All	Optimal Strategy	
		Include Nontaxable Combat Pay	Exclude Nontaxable Combat Pay
Optimization Rate	82%	71%	83%
Average EITC Forgone Among Nonoptimizers	\$1,191	\$1,571	\$1,145
Average Adjusted Gross Income	\$16,578	\$3,970	\$17,457
Average Nontaxable Combat Pay	\$22,519	\$21,426	\$22,595
Use a Paid Tax Preparer	54%	57%	54%
Optimization Rate by Paid Preparer Use:			
No Paid Tax Preparer	73%	54%	74%
Average EITC Forgone Among Nonoptimizers	\$1,232	\$1,769	\$1,171
Average Adjusted Gross Income	\$16,694	\$3,699	\$17,540
Average Nontaxable Combat Pay	\$22,442	\$20,722	\$22,554
Yes Paid Tax Preparer	91%	84%	91%
Average EITC Forgone Among Nonoptimizers	\$1,083	\$1,123	\$1,077
Average Adjusted Gross Income	\$16,480	\$4,173	\$17,388
Average Nontaxable Combat Pay	\$22,584	\$21,954	\$22,631
Observations	987,454	64,399	922,968
Share	100%	6.5%	93.5%

NOTE: Monetary variables are in 2009 dollars.

Among nonoptimizers, the average amount of EITC forgone among personnel who should include their combat pay but do not is \$1,571, which is over \$400 more than the average amount forgone among personnel who should exclude their combat pay but do not. As expected, personnel who use a paid preparer are more likely to optimize their EITC. Overall, 91 percent of personnel who use a paid tax preparer optimize their EITC versus 73 percent of personnel who do not use one. Conditional on not using a paid preparer, 54 percent of personnel who should include their combat pay and 74 percent of personnel who should exclude it optimize their EITC. Among those who do not use a paid preparer, the average amount forgone among personnel whose optimal strategy is to exclude their combat pay is almost \$1,800, or nearly \$600 greater than personnel who should exclude it. Even with the use of a paid tax preparer, the optimization rate among personnel who should include nontaxable combat pay is lower than the rate among personnel who should not. In particular, 84 percent of personnel using a paid preparer who should include their combat pay optimize their EITC, which is 7 percentage points lower than the optimization rate of personnel who should exclude it.

Table 2 also demonstrates that personnel whose optimal strategy is to invoke the NCPE and who do not use a paid tax preparer are not only the least likely to optimize their EITC, but also have the lowest average AGI and nontaxable combat pay. Based on these measures, the NCPE is the least effective for personnel with the lowest income. This result could suggest that better tax guidance might need to be provided to low-income military personnel. In particular, the NCPE creates additional complexity to the EITC calculation, and this complexity is not always overcome by the use of a paid tax preparer, implying that better training of preparers on military tax issues might be necessary.

Table 3 presents the distribution of nonoptimizing personnel by the amount of EITC forgone due to not applying the NCPE optimally. These statistics are separated by whether or not the EITC is claimed. Nonoptimizing personnel could be making mistakes that prevent them from claiming the optimal EITC, or the cost of figuring out how to calculate the maximum credit could be too high relative to the amount of credit that could be claimed. The highest proportion of nonoptimizing EITC claimants (27 percent) forgoes \$250 or less, while the lowest proportion (12 percent) forgoes more than \$2,000. Among nonclaimants, the distribution of personnel by EITC forgone is heavily skewed towards the low and high end. Specifically, over 65 percent of filers and over 45 percent of nonfilers forgo \$500 or less in EITC while 21 percent of filers and 39 percent of nonfilers forgo more than \$2,000.

TABLE 3. Distribution of Nonoptimizing Personnel by Earned Income Tax Credit (EITC) Forgone, Tax Years 2005–2009

	All Nonoptimizers	EITC Claimants	Non-EITC Claimants	
			Filers	Nonfilers
EITC Forgone ≤ \$250	30%	27%	34%	22%
\$250 < EITC Forgone ≤ \$500	29%	17%	33%	25%
\$500 < EITC Forgone ≤ \$1,000	5%	21%	4%	4%
\$1,000 < EITC Forgone ≤ \$2,000	10%	23%	8%	11%
\$2,000 < EITC Forgone	26%	12%	21%	39%
Total	100%	100%	100%	100%
Observations	172,808	12,011	106,637	54,160

NOTE: Totals may not add to 100% due to rounding.

If nonoptimizing personnel located on the low end of the income distribution view the cost of determining the optimal EITC to be too high, then these personnel are not nonoptimizers in an overall sense. If personnel who could claim \$250 or less in additional EITC are reclassified as optimizers, then this would reduce the nonoptimizing population by over 50,000 and increase the overall optimization rate from 82 percent to 88 percent. However, disparities in optimization rates by optimal strategy would remain. In particular, 76 percent of personnel whose optimal strategy is to apply the NCPE optimize their EITC while 88 percent of personnel who should exclude combat pay optimize their EITC.

4.2 EITC Eligibility

Table 4 provides summary statistics by whether or not an individual would qualify for the EITC if combat pay were required to be included in EITC earned income. Taxpayers who would qualify for the EITC even if combat pay were included in EITC earned income are called Always Eligible, while taxpayers who would not qualify for the EITC if combat pay were taxable are called Newly Eligible. Always Eligible taxpayers include those with zero taxable earnings. Over 50 percent of the EITC-eligible sample, or over half a million personnel, are Newly Eligible personnel, meaning that the exclusion of combat pay increases EITC eligibility by more than twofold among the sample of personnel serving in combat zones.

The distribution of personnel by service branch is roughly the same across the two groups, while Newly Eligible personnel contain a higher proportion of reserve personnel than those who are Always Eligible. As expected, a greater proportion of Newly Eligible personnel are concentrated in the higher salaried pay grades since they can currently exclude their combat pay from EITC earned income. Sixteen percent of Always Eligible personnel are in the ME06 to ME09 pay grades, compared to 31 percent of Newly Eligible personnel. In 2009, these pay grades ranged from \$2,175.50 to \$6,863.10 per month, as reported in Table A-1. Similarly, a larger proportion of Newly Eligible personnel are officers than Always Eligible personnel (14 percent versus 1 percent). Officers could earn up to \$8,513.10 per month, or over \$100,000 in 2009, which is well above the EITC means-tested threshold.

Comparing demographic characteristics reveals that, on average, Newly Eligible personnel are older than Always Eligible personnel. Newly Eligible personnel claim an average EITC of \$1,335 while Always Eligible personnel claim an average EITC of \$2,902. Part of this difference is explained by the fact that Newly Eligible personnel are eligible for a lower maximum amount of EITC because a higher proportion file as single and a lower proportion have EITC qualifying dependents than Always Eligible personnel. In addition, a smaller percentage of Newly Eligible personnel claim the EITC (79 percent versus 90 percent), contributing to their lower optimization rate. As discussed earlier, some of these Newly Eligible personnel, specifically those who file as single, may view the cost of calculating their EITC as greater than the potential EITC they could claim.

Newly Eligible personnel have an average of \$28,658 in nontaxable combat pay, which is much larger than that of Always Eligible personnel (\$13,867). Just over half of personnel in each group use a paid preparer and about 5 percent of each group are nonfilers. By definition, Newly Eligible personnel should not apply the NCPE if they want to maximize their EITC. Less than 1 percent of these taxpayers exercise this election, while 13 percent of Always Eligible personnel use the NCPE.

TABLE 4. Summary Statistics by Always and Newly Eligible Personnel, Tax Years 2005–2009

Item	(1) Always EITC-Eligible		(2) Newly EITC-Eligible	
	Share or Mean	Standard Deviation	Share or Mean	Standard Deviation
Distribution Across Military Service Branch				
Army	63%		68%	
Air Force	13%		11%	
Marines	10%		9%	
Navy	14%		12%	
Distribution Across Military Component				
National Guard	12%		16%	
Reserves	7%		12%	
Active	81%		72%	
Distribution by Pay Grade^a				
Enlisted: Pay Grade ME01-ME03	12%		4%	
Enlisted: Pay Grade ME04	37%		20%	
Enlisted: Pay Grade ME05	34%		24%	
Enlisted: Pay Grade ME06	15%		21%	
Enlisted: Pay Grade ME07-ME09	1%		17%	
Officer	1%		14%	
Characteristics				
Age	27.97	(5.71)	32.14	(6.75)
Single	7%		26%	
Married Filing Jointly	81%		64%	
Head of Household	11%		10%	
Any EITC Qualifying Dependents	97%		60%	
Earned Income Tax Credit	\$2,902	(1,399)	\$1,335	(1,482)
Adjusted Gross Income	\$16,024	(9,094)	\$17,008	(13,180)
Nontaxable Combat Pay	\$13,867	(8,894)	\$28,658	(15,869)
Paid Preparer	56%		53%	
Claim EITC	90%		79%	
Nonfiler	6%		5%	
Use Nontaxable Combat Pay Election	13%		0%	
Optimize EITC	87%		79%	
Observations	431,590		555,777	

NOTE: Always Eligible are personnel who would be eligible for the EITC even if combat pay were required to be included in EITC earned income, while Newly Eligible are personnel who would not be eligible for the EITC if combat pay were required to be included. Monetary variables are in 2009 dollars.

^a **Monthly Basic Pay Ranges for Military Personnel by Pay Grade for 2009**

Pay Grade	Minimum (\$)	Maximum (\$)
ME01-ME03	1,294.50	1,859.70
ME04	1,827.60	2,218.50
ME05	1,993.50	2,828.40
ME06	2,175.50	3,369.90
ME07-ME09	2,515.50	6,863.10
Officer	2,655.30	8,513.10

NOTE: Source: <http://militarypay.defense.gov/Pay/basicpay.html>.

4.3 Cost Estimates

In this section, we estimate the cost of the NCPE to the Federal Government. The cost of the NCPE is part of the overall Combat Zone Tax Exclusion (CZTE) tax expenditure, which is the total amount of Federal income tax revenue forgone by making combat zone pay exempt from income taxes (Gleason and Tong, 2012). The cost of the NCPE is the sum of the difference between the EITC claimed with the inclusion of combat pay and the EITC that would have been claimed without the inclusion of combat pay among personnel who use the NCPE. Table 5 demonstrates that the tax expenditure fluctuates across years and varies between \$7.2 million in 2006 and \$15.1 million in 2009. The bulk of this expenditure comes from individuals in the ME01 through ME06 pay grades. Compared to the overall CZTE tax expenditure, the NCPE represents less than 1 percent of the total cost to the government.

TABLE 5. Cost Estimates of CZTE and NCPE Tax Expenditures, Tax Years 2005–2009

(In millions of dollars)

	2005	2006	2007	2008	2009
Total Cost of NCPE	9.3	7.2	8.0	9.6	15.1
Combat Zone Tax Exclusion	3,500	3,400	3,900	3,800	3,600

NOTE: Money amounts are in 2009 dollars.

5. Summary and Policy Implications

We have examined the relationship between nontaxable combat pay and the EITC. The evaluation of the NCPE illustrates that policies implemented through the tax code may help targeted populations, but they can also have unintended effects. While the overall optimization rate is high at 82 percent, EITC optimization rates for those who *should* use this option are lower than the rates for personnel who *should not* use this option. These differences remain when conditioning on using a paid tax preparer and become even larger when looking at the subgroup who do not use a paid tax preparer. Even though the NCPE was designed to improve outcomes for lower-income personnel, and does so most of the time, the policy makes certain personnel worse off because it adds more complexity to the EITC calculation. Since paid tax preparers also make mistakes on when to use the NCPE, better training for preparers on military tax issues might be needed. We estimate that the cost associated with the NCPE is relatively small, totaling no more than \$15.1 million, or less than 1 percent of the overall cost of the CZTE in a given year.

We also find that well over half of the EITC-eligible military population in our sample, or 555,777 out of the 987,367 personnel, is eligible for the EITC only because of the exclusion of combat pay (see Table 4). When these personnel are not stationed in a combat zone, they would generally have income levels that would exceed the threshold to qualify for the EITC, which is a tax credit targeted to lower income families. Changing the NCPE to a requirement to include combat pay in the calculation of earned income for the EITC would ensure that the lowest income military families would be able to claim the EITC and simplify the tax calculations for these families.

A more general implication of this paper is that increasing complexity in the tax code increases filing burden—leading many low-income families to rely on paid preparers in order to maximize their benefits and minimize their tax. Opportunities to simplify the tax code, particularly provisions targeting low income families should be a priority for tax policy going forward.

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