



OFFICE OF  
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DEPARTMENT OF THE TREASURY  
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The Honorable David Loeb sack  
Member, U.S. House of Representatives  
125 South Dubuque Street  
Iowa City, IA 52240

Dear Congressman Loeb sack:

This letter is in response to your inquiry dated October 23, 2008, on behalf of your constituent . . . , a member of the . . . stationed in Egypt, asked why he must partake in training exercises in the Red Sea to qualify for the Combat Zone Tax Exclusion. I am providing the following information to assist you in your response to . . .

Gross income is all income from whatever source, including compensation earned while providing military service (section 61 of the Internal Revenue Code (the Code)). An enlisted member of the Armed Forces can exclude from gross income any compensation that he or she receives for any month the member actively serves in a combat zone for any amount of time [section 112(a)(1) of the Code]. Under this law, commonly referred to as the Combat Zone Tax Exclusion, a "combat zone" is any area which the President of the United States by Executive Order designates as an area in which Armed Forces of the United States are or have (after June 24, 1950) engaged in combat [section 112(c)(2) of the Code]. As of today, the President has not designated Egypt as a combat zone by any Presidential Executive Order. The change . . . requested would require a Presidential act to change Egypt's status and designate it as a combat zone.

An enlisted member not stationed in a combat zone can qualify for the Combat Zone Tax Exclusion in two ways. First, if an enlisted member serves in a combat zone for any part of a month, even if stationed in a nearby non-combat zone, the enlisted member can exclude all compensation for that month from gross income to the same extent as if the member had served in the combat zone for the entire month [Regulations § 1.112-1(b)(3)]. Because Executive Order No. 12744 designated the Red Sea as a combat zone, if an enlisted member of the Armed Forces performs service on

the Red Sea for any part of a month, the member can exclude their compensation for the entire month [section 112 of the Code].

In limited circumstances, an enlisted member can qualify for the Combat Zone Tax Exclusion for performing military service in an area outside of a designated combat zone. Regulations § 1.112-1(e)(1) provides that a member of the Armed Forces who performs military service outside of a designated combat zone is deemed to serve in that combat zone if the member's service directly supports military operations in the combat zone and the service qualifies the member for the special pay for duty subject to hostile fire or imminent danger authorized under section 310 of title 37 of the United States Code (hostile fire/imminent danger pay).

Military members must satisfy the requirements of section 112 of the Code to exclude military service compensation from gross income. It would take legislative action to amend the Internal Revenue Code to permit all overseas military personnel to exclude all their compensation from gross income.

I hope this information is helpful. If I can assist you further, please contact me or  
at ( ) .

Sincerely,

LYNNE CAMILLO  
Branch Chief, Employment Tax Branch 2  
(Exempt Organizations/ Employment Tax/  
Government Entities)  
(Tax Exempt & Government Entities)