

Veterans owed refunds for overpayments attributable to disability severance payments should file amended returns to claim tax refunds

WASHINGTON — The Internal Revenue Service today is advising certain veterans who received disability severance payments after January 17, 1991, and included that payment as income that they should file Form 1040X, Amended U.S. Individual Income Tax Return, to claim a credit or refund of the overpayment attributable to the disability severance payment.

This is a result of the Combat-Injured Veterans Tax Fairness Act passed in 2016.

Most veterans who received a one-time lump-sum disability severance payment when they separated from their military service will receive a letter from the Department of Defense with information explaining how to claim tax refunds they are entitled to; the letters include an explanation of a simplified method for making the claim. The IRS has worked closely with the DoD to produce these letters, explaining how veterans should claim the related tax refunds.

Statute of Limitations

The amount of time for claiming these tax refunds is limited. However, the law grants veterans an alternative timeframe – one year from the date of the letter from DoD. Veterans making these claims have the normal limitations period for claiming a refund or one year from the date of their letter from the DoD, whichever expires later. As taxpayers can usually only claim tax refunds within 3 years from the due date of the return, this alternative time frame is especially important since some of the claims may be for refunds of taxes paid as far back as 1991.

Amount to Claim

Veterans can submit a claim based on the actual amount of their disability severance payment by completing Form 1040X, carefully following the instructions. However, there is a simplified method. Veterans can choose instead to claim a standard refund amount based on the calendar year (an 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

Claiming the standard refund amount is the easiest way for veterans to claim a refund, because they do not need to access the original tax return from the year of their lump-sum disability severance payment.

Special Instructions

All veterans claiming refunds for overpayments attributable to their lump-sum disability severance payments should write either "Veteran Disability Severance" or "St. Clair Claim" across the top of the front page of the Form 1040X that they file. Because all amended returns are filed on paper, veterans should mail their completed Form 1040X, with a copy of the DoD letter, to:

Internal Revenue Service
333 W. Pershing Street, Stop 6503, P5
Kansas City, MO 64108

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 both of the following to verify the disability severance payment:

- A copy of documentation showing the exact amount of and reason for the disability severance payment, such as a letter from the Defense Finance and Accounting Services (DFAS) explaining the severance payment at the time of the payment or a Form DD-214, and
- A copy of either the VA determination letter confirming the veteran's disability or a determination that the veteran's injury or sickness was either incurred as a direct result of armed conflict, while in extra-hazardous service, or in simulated war exercises, or was caused by an instrumentality of war.

Veterans who did not receive the DoD letter and who do not have the required documentation showing the exact amount of and reason for their disability severance payment will need to obtain the necessary proof by contacting the Defense Finance and Accounting Services (DFAS).