

Leaving the Military: More Taxes, Fewer Benefits

DMN Q & A with Kiplinger's Magazine's Kimberly Lankford; Part 1



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Service members listen to guest speakers during a pre-separation seminar at the Russell Marine and Family Services Center aboard Marine Corps Base Camp Lejeune, N.C. The seminar is one of many resources offered through the Transition Assistance Management Program to help service members and families who are retiring or transitioning from the Marine Corps to civilian life. Service members should take advantage of all the transition assistance possible to be aware of both the advantages and disadvantages of civilian life. DoD photo by Cpl. Jo Jones

When the time comes time to re-enlist, the decision to stay on active military duty or to return to civilian life is often a difficult one. The sense of purpose, camaraderie and relative stability of a military career are countered by the more varied opportunities and independence of a civilian career.

And of course, there's the money. Potential earnings outside the military may be higher, even in a dodgy economy. But what are service members giving up financially when they leave? With [possible sequestration cuts on the horizon](#) and pending near term DoD layoffs of a reported 108,000 military personnel, the question is even more relevant, since staying on may not be a choice for many service members.

For insight, we spoke with [Kiplinger's Personal Finance Magazine](#) contributing editor, Kimberly Lankford. Lankford has not only researched the subject. She knows it first-hand. Her husband is an active duty doctor in the U.S. Army.

Defense Media Network – Has the issue of post-military finances generated more interest with the [prospect of sequestration](#) and the likely release of a large number of active duty personnel?

Kimberly Lankford – The key thing right now is that there is so much up in the air. All you can really do is look at what your choices are at this moment and keep in mind that some of the options you have now may be a bit different in a few years. I always tell [service members] to set aside money in their thrift savings plan to supplement their pension because we don't know what's going to happen to those calculations in the future.

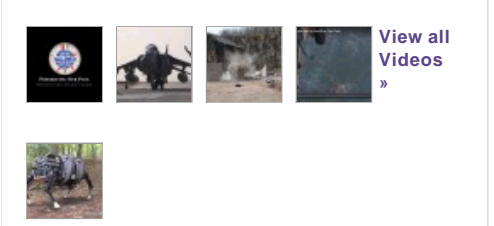
You point out that service members can get significant tax exemptions depending on where they're posted, including states with no income taxes. What should they keep in

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mind with respect to post-service taxes?

People need to look at the state where they're planning on settling. If a service person has been stationed in a tax-free state like Texas or Florida and stays there after leaving the military, then there isn't a difference. But as soon as you leave the military you have to start paying state income tax in most states. The rules have changed recently, and active duty service members' spouses can also avoid state income taxes. So you may be facing a greater amount of [combined] incomes subject to state income taxes of 5 to 7 percent once you leave if your residence is in a state where income is taxed. For people who've left the military, taxes can come as a big surprise. They eat up a much larger chunk of your civilian income than you were expecting.



Many service members get free help with tax preparation. Do they recognize that such services must be paid for outside the military and that their tax liabilities may become more complex?

That's a great point. So many bases have services like Army Community Service with great resources for help with taxes. You also get a good deal of legal support in the military through the JAG [Judge Advocate General] Office for things like creating wills and power-of-attorney etc. If you're out, you're paying for these services. Those benefits may seem small but they can add up.

There's some stress as well since you have to find and vet such service providers on your own outside the military.

Kimberly Lankford

I think especially of legal support and the JAG Office. I get so many questions from readers asking about where they should go for legal services. It depends on where you're located and what due-diligence you want to do. If you're on active duty, you just go to the legal affairs office and get it done. You have the convenience and pre-screened people. There's no vetting.

Service members get a tax-free housing allowance, which covers all or part of their monthly rent or mortgage payment. It can vary depending upon the posting location whether in CONUS or abroad. That benefit disappears when they leave the military. So figuring out where you're going to settle after getting out hinges in part on the loss of that housing subsidy, right?

The allowance can vary significantly based on where you're located and the number of dependents you have. Even if you stay in the military and move to a new city, you have to realize that your housing allowance may shrink. There's a great BAH [basic allowance for housing] online calculator that you can use – <http://www.defensetravel.dod.mil/site/bahCalc.cfm>

You put in your rank, your zipcode, and it shows you, based on numbers of dependents, what your housing allowance will be. If you're leaving the military, it gives you a good heads-up on the [subsidy] you will be losing before looking for a house or apartment. The bottom line with all of the leaving-the-military questions is that there's so much beyond just comparing salary in the military versus outside the military.

There are active duty couples who may maintain two residences. Holding that property upon leaving the service may be more difficult, yes?

That's true and the reverse can be true. Often a service member will temporarily be stationed in another town, and with the slow real estate market, their family may stay in the original location. But the family may be surprised that the BAH is based on where the active duty member is stationed and may shrink. If you're doing any of these complex housing maneuvers, and

many are these days, make sure you know what may happen with your housing allowance. If you're getting out, are you going to have enough to cover that mortgage in the old location? Staying or leaving, service members need to be aware of these nuances.

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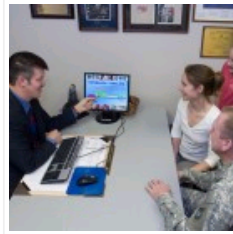


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