



Mobility Matters

Mobility and military families

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For many organizations, fostering an inclusive and supportive work environment for current and former military service members and their families is critical to their diversity, equity, and inclusion (DEI) strategy.¹ However, retaining and developing this subset of talent requires an appreciation for the unique challenges placed on service members and their families.

The reality for many military families is that, at a moment's notice, they may need to uproot their lives in service of (or in support of those who serve) the United States. On average, military families move 10 times more often than civilian families.² In addition to the normal burdens associated with an employee relocation, service members and their families must navigate a complex set of tax rules unique to military personnel and their families.

This article provides an overview of the body of U.S. tax law developed to protect military personnel and their families from being subject to taxation in multiple jurisdictions due to military service and examines how mobility departments are well positioned to support an organization's efforts in attracting and retaining top talent from the military family community. This article's focus is U.S. domestic state-to-state change-of-station relocations, and does not address trailing spouse considerations with respect to international change-of-station relocations.

Background

Even when planned, a relocation can be a stressful transition for an employee. The number of decisions—from housing to education, to managing the logistics of the move—can be overwhelming, and often the employee is in a new environment without an established social network. Military families encounter many of these same challenges when relocating due to a change of station. However, in comparison to traditional assignees, the spouses of service members often receive little organizational support from their companies. This often means trailing spouses of service members are left to navigate the complex web of state and local tax laws on their own.

Fortunately, U.S. Congress recognized the unique personal challenges military service imposes on service members and their families and passed legislation that provides legal and financial protections for military families—including legislation protecting them from multijurisdictional taxation. However, these protections do create some complexity for spouses of service members trying to understand the tax impact of their relocation.

Tax protections for military families

The *Servicemembers Civil Relief Act* (SCRA),³ enacted on December 19, 2003, modernized and strengthened the legal and financial protections for military personnel contained in the *Soldiers' and Sailors' Civil Relief Act* of 1940.⁴ The SCRA protects service members from being taxed as resident in multiple jurisdictions by preventing them from either acquiring or abandoning tax residency or domicile in a state because of presence or absence in any U.S. tax jurisdiction by reason of their military service.

Example – Major Michelle Hood is a legal resident of Florida and receives Permanent Change of Station (PCS) orders relocating her to California. As a result of the SCRA, Major Hood will maintain her domicile in Florida and is not required to pay California state taxes on her military income in California. It is important to note that if Major Hood earns nonmilitary income, then she may be obligated to pay California income tax on that income.



The SCRA did not originally cover spouses of military personnel, meaning military families still faced the financial and administrative burdens of multijurisdiction taxation. To address this inequity, Congress passed the *Military Spouses Residency Relief Act* (MSRRA).⁵ Signed into law on November 11, 2009, the MSRRA amended the SCRA and extended many of its protections to spouses of service members. Under the MSRRA, the spouse of a service member was granted similar tax residency protection when with the service member in compliance with the service member's military orders. The MSRRA also prevents a spouse's income from being considered earned in a nonresident jurisdiction if the spouse is present in that nonresident jurisdiction with the service member in compliance with the service member's military orders.

Example – Captain Michael Moran and his spouse, Katie, are legal residents of Texas. Katie works for an advertising agency in Texas. Captain Moran receives PCS orders relocating his family from Texas to North Carolina. Katie is unable to work remotely for her previous employer, so she obtains a new role working for an advertising agency in North Carolina. Under the MSRRA, neither Captain Moran nor Katie will be subject to income tax in North Carolina on their wages.

However, as originally enacted, these spousal protections were limited to instances where the spouse and service member had the same residence or domicile. This meant that when a spouse and service member were living in different states before relocation, the couple would have to file separate state tax returns and the spouse would potentially acquire

residency in the new state. *The Veterans Benefits and Transitions Act* of 2018 (VBTA)⁶ amended the MSRRA to allow a spouse to choose the same state of tax residence as the service member.

Example – Private Emma Dunne is a legal resident of Washington, and her spouse, John, is a legal resident of Oregon. John works in construction in Oregon. Private Dunne receives PCS orders to relocate from Washington to Oklahoma. John moves to Oklahoma with Private Dunne and obtains a role with a construction company. Private Dunne remains a legal resident of Washington. As a result of VBTA, John can elect for Washington to be his state of domicile, even though he did not reside there prior to the relocation. With this election, John is not required to pay Oklahoma tax on his income.

How can organizations support military-related employee relocations?

The KPMG Veterans Business Resource Group recently completed an internal review to better understand the challenges the KPMG veteran and military spouse employees face when relocating due to a change of station. Notwithstanding the protections provided by the SCRA, MSRRA, and VBTA, the KPMG Veterans Business Resource Group's review found that one of the greatest stressors for military families is understanding the tax impact of their relocation.

In many organizations, tax counseling sessions are a standard resource provided to relocating employees who are mobilized for a business-driven reason.

Organizations looking to foster an inclusive and supportive work environment for current military service members and their families may want to consider extending this benefit to their military-related employees (e.g., reservists, military spouses, etc.). Educating employees who are service members—and their spouses—on relevant tax legislation and the benefits available to them would be a significant step in the right direction. The KPMG program, Mobilizing Our Heroes,⁷ is designed to provide such assistance, enabling service members and their spouses to better understand the tax aspects tied to relocation and thereby help underpin informed decisions related to their tax residency position and filing obligations. This can help ensure a smooth and successful transition as they undergo relocation.

Additionally, many organizations do not realize that the decisions made by military employee spouses regarding their tax residency affect their organization's tax obligations. Organizations need to consider the impact of the SCRA on payroll to help ensure both compliance and a positive employee experience.



Footnotes:

¹ For example, see KPMG Diversity, Equity, and Inclusion, available at <https://www.kpmg.us/about/diversity-equity-inclusion.html>. See also 2023 KPMG U.S. Impact Plan, available at <https://www.kpmg.us/about/us-impact-plan.html>.

² Dickler, Jessica. "Military families face financial hurdles," in CNN Money (online) (March 27, 2012, accessed November 4, 2014) at <http://money.cnn.com/2012/03/27/pt/military-families/>. Please note that by clicking on this link, you are leaving the KPMG website for an external site (non-KPMG, nongovernment), that KPMG is not affiliated with nor does KPMG endorse its content. The use of the external site and its content may be subject to the terms of use and/or privacy policies of its owner or operator.

³ *Servicemembers Civil Relief Act*, Pub. L. No. 108-189, 117 Stat. 2835.

⁴ 50 U.S.C. App. 501 et seq.

⁵ *The Military Spouses Residency Relief Act*, Pub. L. No. 111-97, 123 Stat. 3007.

⁶ *The Veterans Benefits and Transitions Act of 2018*, Pub. L. No. 115-407, 132 Stat. 5368.

⁷ See Mobilizing Our Heroes at: <https://tax.kpmg.us/services/global-mobility/mobilizing-heroes.html>.

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