



How to file refund claims for overpayments attributable to Disability Severance Payments

Veterans who have been separated from military service due to a medical disability may be due federal income tax refunds for taxes they paid on disability severance payments (DSP) that should not have been taxed. Disability severance pay is not taxable if you are receiving VA disability compensation or you have received notification from the VA approving such compensation, or if the disease or injury resulted directly from armed conflict, took place while engaged in extra-hazardous service, took place under conditions simulating war, or was caused by an instrumentality of war.



How would I know if I am due a refund?

The term, “disability severance payments” refers to one-time lump sum payments made to service members separated due to medical disability. It does not include monthly Department of Veterans Affairs (VA) disability payments made for service-connected disabilities that are identified upon retirement from the military. With disability severance pay, service members were separated specifically because they were not fit for duty due to their disability.

In July of 2018, the IRS mailed letters on behalf of the Department of Defense (“DoD notice letters”) notifying affected veterans of their eligibility to file a claim for credit or refund of an overpayment attributable to the DSP with the IRS. Veterans received either Letter 6060-A or Letter 6060-D, which included instructions for submitting a claim for credit or refund.



How do I file a claim for credit or refund?

Veterans can either file a claim for credit or refund based on the actual amount of the overpayment attributable to the DSP or a standard amount. To claim a credit or refund based on the actual amount of the overpayment attributable to the DSP, you must complete a Form 1040X, following the instructions carefully. If you lack documentation from your original return showing the amount overpaid, you can request it from the IRS. However, the IRS maintains tax records for only seven years. Mail the completed Form 1040X to the address indicated in the DoD notice letter (also listed below) and attach the following documents:

- DoD notice letter (mailed by the IRS on behalf of Defense Finance and Accounting (DFAS)); and
- VA determination letter confirming your disability or a determination that your injury or sickness was incurred as a direct result of armed conflict, while in extra-hazardous service, in simulated war exercises, or was caused by an instrumentality of war.

You may also file a claim for the standard refund amount. To file a claim for the standard refund amount, you must mail the completed Form 1040X, with only the DoD notice letter attached, to the address included in the DoD notice letter. The standard refund amount is:

- \$1,750 for tax years 1991-2005
- \$2,400 for tax years 2006-2010
- \$3,200 for tax years 2011-2016

The DoD notice letters also provide a special IRS toll-free number for veterans to call with questions about their claims: (833) 558-5245, ext. 378.



What is the time limit for making a claim?

You must mail the refund claim to the IRS generally by the later of:

- 1 year from the date of the DoD notice letter, or
- 3 years after the due date for filing the original return for the year the DSP was made, or
- 2 years after tax was paid for the year in which the DSP was made.





What if the service member is deceased?

Survivors of deceased veterans must also file IRS Form 1310, *Statement of Person Claiming Refund Due a Deceased Taxpayer*, with the Form 1040X unless the person filing the claim is the surviving spouse of the service member and filed a joint tax return with the service member for the year the veteran received DSP.

Where should I mail my claim for refund?

If you received a DoD notice letter, you should write either “Veteran Disability Severance” or “St. Clair Claim” across the top of the front page of your Form 1040X and mail the Form 1040X and accompanying documents to:

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

What if I am due a refund but do not receive the DoD notice letter?

If you believe you are eligible for a refund but did not receive a DoD notice letter, you can still file a claim for credit or refund of either the actual amount of the overpayment attributable to the DSP or the standard amount. You must complete a Form 1040X as instructed above and attach:

- Documentation showing the amount of and reason for your DSP. This could include a Form DD214 or a letter from DFAS explaining the severance payment at the time it was made; and
- VA determination letter confirming your disability or a determination that your injury or sickness was incurred as a direct result of armed conflict, while in extra-hazardous service, in simulated war exercises, or was caused by an instrumentality of war.

If you do not have the required documentation to file a claim for refund, you may contact the National Archives, National Personnel Records Center (<https://www.archives.gov/veterans>) or the VA (<https://www.va.gov>).

Where can I find more information?

- Defense Finance and Accounting Service (https://www.dfas.mil/dsp_irs.html)
- Internal Revenue Service (<https://www.irs.gov/individuals/military/combat-injured-veterans-tax-fairness-act-claim-information-available>)
- Internal Revenue Manual (IRM) 21.6.6.4.20.2, *The Combat-Injured Veterans Tax Fairness Act of 2016 – Veteran’s Disability Compensation for Veterans Separated due to Medical/Disability* (Jun. 20, 2018)

What is the Taxpayer Advocate Service?

The Taxpayer Advocate Service (TAS) is an independent organization within the Internal Revenue Service that helps taxpayers and protects taxpayer rights. Our job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the Taxpayer Bill of Rights.

What can TAS do for you?

We can help you resolve problems that you can’t resolve with the IRS. And our service is free. If you qualify for our assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business.
- You face (or your business is facing) an immediate threat of adverse action.
- You’ve tried repeatedly to contact the IRS but no one has responded, or the IRS hasn’t responded by the date promised.

How can you reach us?

We have offices in every state, the District of Columbia, and Puerto Rico. Your local advocate’s number is at <https://taxpayeradvocate.irs.gov>, and in your local directory. You can also call us at 1-877-777-4778.