



United States  
General Accounting Office  
Washington, D.C. 20548

Office of the General Counsel

B-256731

November 8, 1994

Mr. Marvin J. Waanders, Chief  
Accounting and Finance Division  
Defense Finance and Accounting Service  
Denver Center  
6760 East Irvington Place  
Denver, Colorado 80279

Dear Mr. Waanders:

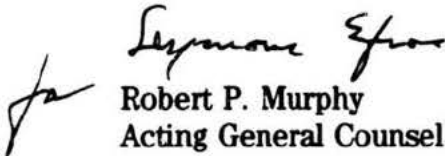
This is in further regard to Mr. [redacted] claim for reimbursement of an additional Relocation Income Tax (RIT) allowance and review of his indebtedness of \$108 arising from the calculation of his RIT by the Finance Officer, Headquarters 1st Fighter Wing, Langley Air Force Base, incident to Mr. [redacted] 1992 permanent change-of-station transfer. Your office forwarded the claim to our Claims Group by letter of January 25, 1993 (DFAS-DE/WFS), and the Claims Group denied the claim in settlement Z-2869040, Feb. 22, 1994. Subsequently, Mr. [redacted] appealed that settlement. Upon review of the matter we now believe Mr. [redacted] claim warrants further consideration.

Mr. [redacted] has brought to our attention the fact that his military retired pay was not included in the calculation of his earned income for the purpose of the RIT allowance. The applicable provision of the Federal Travel Regulation, § 302-11.5(h), states that earned income shall include only the employee's gross compensation, including "salary, wages or other compensation" reported as income on IRS Form W-2. We understand that at the time this regulation was issued military retired pay was required to be reported on Form W-2. However, subsequently the Internal Revenue Service changed the reporting requirement and now requires retirement pay and pensions to be reported on Form 1099. Apparently because the RIT certification refers to income reported on Form W-2, not Form 1099, Mr. [redacted] reported only earned income shown on his W-2s, and did not include his military retired pay. Based on the figures he submitted, we agree with our Claims Group that your office properly calculated his RIT allowance.

It is our understanding that although the IRS has changed the reporting form, it has not changed the basic characterization of nondisability military retired pay as taxable earned income. Therefore, we believe this source of income ordinarily would be includable as earned income in computation of an employee's RIT allowance.<sup>1</sup> Therefore, we are advising Mr. \_\_\_\_\_ to furnish you appropriate documentation (i.e. Form 1099) showing the amount of taxable military retired pay he received in 1992. We ask that you review the additional information he provides. If his receipt of taxable retired pay is established to your satisfaction, please have his RIT allowance recomputed with the inclusion of the retired pay in his earned income, and advise Mr. \_\_\_\_\_ and our Office of the result of the recomputation.

We are also enclosing copies of Mr. \_\_\_\_\_ 1992 federal and state income tax returns that he provided. If there are any questions concerning this matter, you may refer them to \_\_\_\_\_, the attorney handling the matter in our Office, who may be reached at telephone number \_\_\_\_\_.

Sincerely yours,

  
Robert P. Murphy  
Acting General Counsel

Enclosures

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<sup>1</sup>We informally consulted with a knowledgeable person in the General Services Administration's Travel Management Division, and he concurred in our conclusion.

**DIGEST**

An employee claims an additional amount for Relocation Income Tax (RIT) allowance because his agency did not include his military retired pay in the calculation of his gross income which is to include earned income. The Federal Travel Regulation (FTR) defines "earned income" to include salary, wages or other compensation that is reported on IRS Form W-2. Although at the time the FTR provision was written retired pay was required to be reported on Form W-2, it is now reported on IRS Form 1099. However, the basic characterization of retired pay as earned income has not changed. Therefore, if the employee is able to document the amount of taxable military retired pay he received in the relevant year, the agency should include this in his total earned income and recompute his RIT allowance accordingly.