

MEMORANDUM FOR FOURTH CLASS CADETS

SUBJECT: Income Tax Information

1. Many of you as fourth class cadets have questions concerning the income tax consequences of cadet pay and allowances. This memo provides information from the standpoint of both your tax return and your parents' return for 2011. It is very important that you share this data with your parents.
2. This memo is based on the tax laws and current rulings of treasury officials. It is, however, informative only and does not necessarily reflect the official position of the Internal Revenue Service or the Department of the Army.
3. All cadets at the Academy must file their own income tax returns. Each fourth class cadet who entered the Academy on 27 June 2011, and remained through 31 December 2011, has received or had credited to their account during 2011 base pay of \$5,976.32. Cadets must report this amount as income from the Army. In addition, each cadet received a \$7,200.00 pay advance to assist with the payments of uniforms, textbooks, computer, software and various school fees.
4. Under section 152(c)(1)(D) of the Internal Revenue Code, to claim a child as a dependent on a parent or guardian's tax return, the child in question must not have provided more than half of his or her own support for the tax year at issue. Therefore, your parent(s)/guardian(s) must have contributed half, or more than half, of your support for the year to claim you as an income tax exemption. "Support" in this context refers to dollar amount, and not the length of time support was furnished. Your parent or guardian may properly include the cost of board, clothing, lodging, medical and dental care, education, property and furniture, insurance, etc., they furnished for you in 2011 when they calculate their level of support. If you lived at home for the first six months of 2011, your parent or guardian may include a proportionate amount of the family food bill, utilities, rent or house payments, interest, taxes, etc., as part of your support. If you attended college, prep school, or high school prior to entering the Military Academy, your parents may also include the amount they paid for tuition, books, school supplies, and transportation to and from school as parental support.
5. In determining the value of support furnished from sources other than your parents, you must include both taxed and untaxed support amounts. This simply means that the portion of your taxable pay spent on your own support must be included, and in addition, the support provided by the Army in the form of food, lodging, education and other services must also be included. Even though the value of Army support is not taxed as income, the value must be considered when determining who provided more than half of your support. The following chart indicates values of support furnished by you and by the Army.

6 January 2012

Cadet Pay earned from 27 June through 31 December	\$5,976.32
Government Pay Advance	7,200.00
Subsistence (food) (188 days x \$10.80 per day) 27 June through 31 December	2,030.40
Room and Board (half year per USMA's FY10 Cost of Education Report)	1,588.50
Education (the actual 2010 tuition cost per semester at the U.S Military Academy)	<u>25,729.50</u>
TOTAL SUPPORT BY THE CADET AND BY THE ARMY	<u>\$42,524.72</u>

6. Therefore, as a fourth year cadet, through your service as an active duty member of the United States Army, you provided your own support in the total amount of \$42,524.72. If \$42,524.72 is more than half of the total cost of supporting you for the year 2011, then you do not qualify as a dependent of your parents.

7. In our opinion, if your parent has not provided at least \$42,524.72 in support, **then your parent may not be able to claim you as an exemption.** If your parent has provided more than this amount in support, then your parent is entitled to claim you as an exemption. Under IRS regulations, if your parent can claim you, you cannot claim a personal exemption for yourself, and you will have to complete a worksheet to compute your standard deduction.

8. The question may arise whether an appointment to the Military Academy can be considered a "scholarship award" within the meaning of the income tax laws. The Internal Revenue Service has ruled that such an appointment is not a scholarship award and that the education provided by the Military Academy must, therefore, be included as an item of support furnished by the Army.

9. I trust that the information provided, although necessarily general in nature, will be of assistance to you and your family. The above information is provided to ensure that you and your parent(s)/guardian(s) have sufficient data to calculate income tax returns.

10. Any questions by your parent(s)/guardian(s) concerning the proper methods of calculating dependency should be resolved through independent legal counsel, Publication 17, and/or contact the Internal Revenue Service.



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