



## SURVIVOR BENEFIT PLAN (SBP) FACT SHEET TAXES AND SBP

This fact sheet is designed to supplement the Department of Defense website at: <https://militarypay.defense.gov/Benefits/Survivor-Benefit-Program/>. Updated by Headquarters, Department of the Army.

### **THE SIMPLE FACTS**

You should become familiar with the general provisions outlined in the Department of Defense website before reading this fact sheet. This fact sheet provides information to help you understand the provisions of SBP, but it is not a contract document. The basic statutory provisions of SBP law are in chapter 73, title 10, United States Code.

### **SBP COSTS AND TAXES**

When trying to decide whether or not to participate in SBP, consider the tax advantage of SBP provided by law. SBP premium costs are deducted from total retired pay and excluded from Federal gross income. SBP premium costs are not reported as income to the Internal Revenue Service or taxed. The premiums effectively lower your taxable income. Most, but not all, states follow the same practice as the Federal Government. See example below:

<b>Tax Advantage Example</b>		
	<b>No SBP</b>	<b>SBP</b>
<b>Retired Pay</b>	\$2,500	\$2,500
<b>SBP Cost</b>	\$0	\$162.50
<b>Taxable Pay</b>	\$2,500	\$2,337.50
<b>Tax Paid (28%)</b>	\$700	\$654.50
<b>Tax Savings</b>	\$0	\$45.50
<b>Actual SBP Cost Due to Tax Saving</b>	\$0	\$117

## **SBP COSTS AND FEDERAL CIVIL SERVICE RETIREMENT AND/OR DISABILITY COMPENSATION FROM THE DEPARTMENT OF VETERANS AFFAIRS (VA)**

Some retirees who work as Federal civilian employees later retire from Civil Service and waive their uniformed service retired pay in order to count their active duty time for their Civil Service retirement annuity. These retirees may keep their SBP coverage, but they must send Defense Finance and Accounting Center – Cleveland (DFAS-CL) a monthly check to cover their SBP costs. In this case, the cost of SBP is not excluded from Federal or state income tax. The same is true of those members who have waived their retired pay in order to receive disability compensation from the Department of Veterans Affairs (VA) and pay the SBP premiums from VA disability compensation by allotment. In these situations, the taxability of future annuity payments will be less (see below).

### **SBP ANNUITY PAYMENTS AND TAXES**

Although SBP premiums paid by a reduction in retired pay are not taxed, SBP benefit payments generally are taxed. In cases where a member paid SBP premiums by personal check to the Finance Center, the annuity payments are not taxed as income until the total of all benefits paid exceeds the total of all costs paid by the retiree (as contrasted with costs paid through retired pay reduction). This is because premiums paid by this method were paid with after tax dollars instead of pre-tax dollars.

### **NON-RESIDENT ALIEN TAX ON SBP**

The IRS requires a 30 percent withholding tax from SBP payments to non-resident aliens living in many foreign countries. Some tax treaties allow payments without withholding. Also, IRS will exempt from withholding a percentage of the benefit equal to the percentage of the member's career served in foreign countries if that member is not a U.S. citizen. Some countries allow tax deductions or credits for these withholdings. Contact your Finance Center and the IRS for further specific details.

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