

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 2004. 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 28 June 2004, and remained through 31 December 2004, has received or had credited to their account during 2004 base pay of \$4,834.86. Cadets must report this amount as income from the Army. In addition, each cadet received a \$5,060.00 pay advance to assist with the payments of uniforms, textbooks, computer, software and various school fees.
4. Your parent(s)/guardian(s) must have contributed more than half of your support for the year in order to claim you as an income tax exemption "More than half the support" refers to dollar value, and not to 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 you when they calculated their level of support. If you lived at home during the first six months of 2004, 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 yourself and by the Army.

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Cadet Pay earned from 28 June through 31
December \$4,834.86

Government Pay
Advance 5,060.00

Subsistence (food) (95 days x \$5.90 per day)

28 June through 30
September 560.50
(91 days x \$6.35 per day)

1 October through 31
December 536.90

Room and Board
(Half year per USMA's FY01 Cost of Education
Report) 1,631.50

Education
(the actual 2002 tuition cost per semester at the U.S Military
Academy) 17,405.00

**TOTAL SUPPORT BY THE CADET AND BY THE
ARMY \$30,069.71**

6. In our opinion, if your parent has not provided at least \$30,069.71 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.

7. 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.

8. 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.

9. 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.

THOMAS M. REMO
Assistant Treasurer, USMA