

## Recent Ohio Law Change Affecting Servicemembers Who Receive Disability Severance Payments

Governor Mike DeWine recently signed Substitute House Bill 18 (H.B. 18) into law. H.B. 18 ensures that veterans' disability severance payments are exempt from Ohio's income tax.

Disability severance payments awarded following honorable discharge or release are generally exempt from federal income tax and thus exempt from Ohio's income tax. If you received such a payment in a prior year, you should have received a letter from the Defense Finance and Accounting Service (DFAS) on behalf of the Department of Defense (DoD).

If you did not pay tax on this amount when you filed your original return, no action is required. However, if you reported such a payment on any year's federal income tax return, the Department of Taxation recommends you file an amended federal return with the IRS to request a refund. For additional information on this process, see [https://www.dfas.mil/dsp\\_irs](https://www.dfas.mil/dsp_irs).

The IRS offers two refund methods for taxpayers who inadvertently paid tax on disability severance payments. **Method A** requires you to recalculate your federal adjusted gross income by removing your disability severance payments. **Method B** allows you to simply claim a "standard refund amount" without the need to recalculate your federal adjusted gross income.

**If your federal refund is approved by Method A** and the income was reported on your Ohio income tax return, you can file an amended Ohio return to request a state refund. The amended return should reflect your updated federal adjusted gross income as accepted by the IRS. Such refund requests must be filed:

- For tax years prior to 2019, on or before December 31, 2020;
- For tax years 2019 and after, within 180 days after the federal adjustment has been finalized; OR
- For any tax year, within 4 years of the date of the payment.

**If your federal refund is approved by Method B** and the income was reported on your Ohio income tax return, you can file an amended Ohio return to request a state refund. The amended return should claim the deduction of your disability severance payments on the "military injury relief fund" line of Ohio Schedule A. You should also note that the change is because of "disability severance payments" on the *Reason and Explanation of Corrections* page of your amended return, and attach a copy of your letter from DFAS. Such refund requests must be filed

- For tax years prior to 2019, on or before December 31, 2020;

- For tax years 2019 and after, within 180 days after the federal adjustment has been finalized; OR
- For any tax year, within 4 years of the date of the payment.

**If your federal refund is not approved**, but the disability severance payment was included on your original Ohio return, you should file an amended Ohio return to request a refund. The amended return should claim the deduction of these payments on the “military injury relief fund” line of Ohio Schedule A. You should also note that the change is because of “disability severance payments” in the *IT RE, Reason and Explanation of Corrections* page of your amended return, and attach a copy of your letter from DFAS. Such refund requests must be filed:

- For tax years prior to 2019, on or before December 31, 2020; OR
- For any tax year, within 4 years of the date of the payment.

If you have additional questions on this subject, please contact the Department of Taxation by [email](#) or by calling 1-800-282-1780 (1-800-750-0750 for persons who use text telephones (TTYs) or adaptive telephone equipment).

See R.C. 5747.01(A)(34), 5747.10(B)(2), and 10 U.S.C. 1212.