

Processing of Disability Severance Pay (DSP)

1. Separation order must authorize DSP and state the soldier's grade and years service based on section 1208, section 10 US code.
2. To calculate the total DSP authorized. Take the monthly base pay rate multiplied by two. Then multiply this answer by the number of years service on the DSP order. If the number of years service is 6 months or more, round up to the next year. If not, round down, i.e. if the years for DSP was 6 years 5 months and 29 days, round down to 6 years. Maximum number of years is 12. If the soldier has more then 12 years it is still calculated at 12 years. The minimum is 6 months, which would round up to 1 year. If less than 6 months, there is no DSP entitlement. See Example 1 of DSP payment.
3. To determine if the DSP is taxable. Refer to DODFMR Chapt 35 par 350404(Example 10). See attached order (Example 2)
4. Processing through DMO max amount payable per update is 9999.99. If DSP is more than this amount multiple payments will need to be processed, one per update. Input a D19 remark for each payment. When inputting multiple payments using a D02-1 start with the separation date in the start and ending date. The next payment use the day before. If the same date is input it will reject as duplicate payment. See Examples 3-8.
5. COP for Taxable is **Y1** and Non-Taxable is **YS**
6. APC used is from the contingency operation the soldier was on at the time of injury. (See attached message from DFASIN, Example 9) If the soldier wasn't on one of the listed contingencies use **222123** for enlisted and **222122** for officers.
7. See Example 10 from DODFMR Volume 7A chapt 35 for calculation and processing.

Smith, Snuffy A 123-45-6789 E6 PEBD 880512 Sep date 030814

Base pay E6 w/15 yrs **2636.70**

$2636.70 \times 2 = 5273.40$

SM auth DSP 4yrs, 6 months, 10 days of service. This would round up to 5 yrs

$5273.40 \times 5 = 26,367.00$ total DSP payment auth.

All questions on order d, e, f, are answered NO so the DSP is taxable. **COP is Y1**

Soldier was injured while on contingency operation Noble Eagle. **APC is 01ENGQ**

EXAMPLE 1

EXAMPLE

DEPARTMENT OF THE ARMY
HEADQUARTERS US ARMY MEDICAL DEPARTMENT CENTER & SCHOOL AND FORT SAM HOUSTON
FORT SAM HOUSTON, TEXAS 78234-5028

ORDERS 218-0107

06 August 2003

Smith, Snuffy A. 123-45-6789 SSG 228TH CBT SPT HOSP (WNBLR1) SAN ANTONIO TX
78209-6027

You are reassigned to the U.S. Army transition point shown for transition processing. After processing, you are discharged from the Component shown. If you are delayed in reporting to the transition point, you still must report to the transition point as soon as possible or as authorized to receive a new effective date of discharge.

Assigned to: US ARMY TRANSITION POINT (WZDNLA) BROOKE ARMY MEDICAL CENTER TX
78234-6200

Reporting date: 14 August 2003

Component: USAR

Date of discharge unless changed or rescinded: 14 August 2003

Additional instructions: a. You are authorized disability severance pay in pay grade SSG based on 4 years, 6 months, 10 days of service as computed under section 1208, section 10, United States Code. b. Percentage of disability -- 20%. c. Your scheduled date of separation is: 14 August 2003. (d) Disability is based on injury or disease received in LOD as a direct result of Armed Conflict or caused by an instrumentality of war and incurred in the LOD during a war period as defined by law: No. (e) Disability resulted from a combat related injury as defined in 26 USC 104: No. (f) Member of an Armed Force on 24 Sep 75: No. g. You are authorized shipment of household goods to home of record or place of entry. h. Dependents: Yes.

FOR ARMY USE

Auth: AR 635-40

HQR: SAN ANTONIO TX US

Place EAD or OAD: SAN ANTONIO TX US

MDC: 7BE3

Format: 501

FOR THE COMMANDER:

* OFFICIAL *
* USAMEDDC&S & FSH *

DISTRIBUTION:

SSG Smith (5)

Cdr 228TH CBT SPT HOSP (3)

CDR, BAMC, ATTN: MCHB-PAB (1)

TOTAL COPIES (9)

THOMAS E. BAILEY
LTC, FA
ADJUTANT GENERAL

If the answer to questions in d, e, f, are NO (which they are in this example) the Disability Severance Pay is taxable. If any one of the questions is YES the DSP is non-taxable

Member Information

Cycle: ZU3238 Julian Date: 237

SSN 123456789 Name SMITH PayGrade
PAS 02503AA0 ST-PGMA AN BAH Status/Type / DOS

Transaction Information

Military Personnel Classification

E - Enlisted

Type of Action Indicator

A - Payment of entire entitlementer

Calendar Year Overpayment was Received

Component of Pay

Y1 - Disability Severa

Payment/Collection Start Date

030814

Payment/Collection Stop Date

030814

Payment/Collection Amount

9999.99

Accounting Processing Code

01ENGQ

Order Number

000000

Type of Duty Tour

OK

Cancel

Prefill

Print

History

Help

| D19 - Individual Member - LES Remark | | Cycle: ZU3238 | | Julian Date: 237 | |
|--------------------------------------|---|---------------|------------------------------------|------------------|--|
| Member Information | | | | | |
| SSN | <input type="text" value="123456789"/> | Name | <input type="text" value="SMITH"/> | PayGrade | <input type="text"/> |
| PAS | <input type="text" value="U25U3AAU"/> | ST-PGMA | <input type="text" value="AN"/> | BAH Status/Type | <input type="text" value="L"/> |
| Transaction Information | | | | | |
| Comments | <input type="text" value="DISABILITY SEVERANCE PAY 1ST OF 3 PMTS"/> | | | | |
| Sequence Control Number | <input type="text" value="01"/> | | | | |
| Input Initials | <input type="text" value="TL"/> | | | | |
| | | | | | <input type="button" value="OK"/> |
| | | | | | <input type="button" value="Cancel"/> |
| | | | | | <input type="button" value="Prefill"/> |
| | | | | | <input type="button" value="Print"/> |
| | | | | | <input type="button" value="History"/> |
| | | | | | <input type="button" value="Help"/> |

Member Information

Cycle: ZU3238 Julian Date: 237

SSN Name PayGrade

PAS ST-PGMA BAH Status/Type DOS

Transaction Information

Military Personnel Classification

Type of Action Indicator

Calendar Year Overpayment was Received

Component of Pay

Payment/Collection Start Date

Payment/Collection Stop Date

Payment/Collection Amount

Accounting Processing Code

Order Number

Type of Duty Tour

-
-
-
-
-
-

Member Information

Cycle: ZU3238 Julian Date: 237

SSN Name PayGrade
PAS ST-PGMA BAH Status/Type DOS

Transaction Information

Comments

Sequence Control Number

Input Initials

Member Information Cycle: ZU3238 Julian Date: 237

SSN 123456789 Name SMITH PayGrade
PAS U2503AA0 ST-PGMA AN BAH Status/Type / DOS

Transaction Information

Military Personnel Classification E- Enlisted
Type of Action Indicator A - Payment of entire entitlement
Calendar Year Overpayment was Received
Component of Pay Y1 - Disability Severa
Payment/Collection Start Date 030812
Payment/Collection Stop Date 030812
Payment/Collection Amount 6367.02
Accounting Processing Code 01ENGQ
Order Number 000000
Type of Duty Tour

OK
Cancel
Prefill
Print
History
Help

Member Information

Cycle: ZU3238 Julian Date: 237

SSN Name PayGrade
PAS ST-PGMA BAH Status/Type DOS

Transaction Information

Comments
Sequence Control Number
Input Initials

-
-
-
-
-
-

Date: Thursday, 21 August 2003 09:35 MT
To: DFASIN/AC-MP.AIG, DFASIN/RC-MP.AIG
From: DFASIN/AIG.MSG
Subject: Disability Severance Pay

Subject: Disability Severance Pay for Mobilized Soldiers

De-mobilization sites processing Disability Severance Pay claims related to mobilization missions, should input transactions with the same APC that was used to pay the active duty tour. The Components of Pay for Disability Severance Pay are 'YS' for Disability Severance Pay non-taxable and 'Y1' for Disability Severance Pay taxable. The following APC are currently being used for contingency operations and should also be used to pay disability severance pay related to each mobilization mission:

01FFGK Joint Forge (Bosnia) Officer
01ENGK Joint Forge (Bosnia) Enlisted
01FFVH Joint Guardian (Kosovo) Officer
01ENVH Joint Guardian (Kosovo) Enlisted
01FFGQ Noble Eagle Officer
01ENGQ Noble Eagle Enlisted

01FFGU Enduring Freedom Officer
01ENGU Enduring Freedom Enlisted
01FFGV Air Force Security Officer
01ENGV Air Force Security Enlisted
01FFGW Iraqi Freedom Officer
01ENGW Iraqi Freedom Enlisted

Department of Defense Financial Management Regulation (DODFMR), Volume 7A, Chapter 35, paragraph 3504, provides policy guidance concerning the payment and calculation of disability severance pay.

Point of contact for this message is Craig Hosteng , Commercial (317) 510-7598 or DSN 699-7598. E-mail addresses: Craig.Hosteng@DFAS.MIL.
----- (end of letter) -----

EXAMPLE 9

3504 DISABILITY SEVERANCE PAY

350401. Entitlement. A member separated from the Military Service for physical disability is entitled to severance pay if qualified as prescribed in personnel regulations of the Military Service concerned. When a member is entitled to disability severance pay, separation orders specify this entitlement.

350402. Disability Incurred During Nonpay Status. A member who incurs a disability while in a total pay forfeiture status is not entitled to disability severance pay. This is true even though the Secretary of the Military Service concerned remits the unexecuted portion of the sentence, including all uncollected forfeitures.

350403. Computation

A. Formula. To compute disability severance pay, multiply the sum of basic pay for 2 months by the number of combined years of active service and inactive duty training (but not over 12) (exception: a member of the Regular forces may not have inactive duty performed under 10 U.S.C. 270 (reference (c)) included in the calculation). Do not include as basic pay the 25 percent increase prescribed under certain conditions for a Navy or Marine Corps member retained on active duty after enlistment expires.

B. Years of Service. The member's separation orders specify the total combined years of active service and inactive duty training (subject to the exception in subparagraph 350403.A, above) to be counted in computing severance pay. Round this total to the nearest whole year, with 6 months or more rounded up. If a member has less than 6 months of combined service, there is no disability severance pay entitlement.

C. Grade at Which Disability Severance Pay Is Computed. Compute severance pay on basic pay of the highest grade or rank described below:

1. The grade or rank in which the member is serving at separation.
2. The permanent Reserve grade held at separation.
3. The highest temporary or permanent grade or rank in which member served satisfactorily as determined by the Secretary of the Military Service concerned.
4. If the disability is found during an examination for promotion, the grade or rank to which member would have been promoted if there was no disability.

D. Example of Computation. An E-6 has 11 years, 4 months, and 9 days of active service and 76 inactive duty training periods (“points”) on the date of separation for physical disability. Compute the entitlement as follows:

$$\begin{array}{r} 11 \text{ years, 4 months, 9 days} = 11.3583 \text{ years} \\ 76 \text{ “points”} / 360 = \quad \quad \quad .2111 \text{ years} \\ \hline \text{Total Service} = \quad \quad \quad 11.5694 \text{ years} \end{array}$$

Since it is a decimal greater than .5, round the total upward to 12 years. 12 years x 2 months of basic pay of an E-6 over 12 = amount of disability severance pay.

NOTE: For purposes of this calculation, “points” in excess of 60 during any single year are disregarded.

350404. Taxability and Withholding

A. General. Disability severance pay is normally taxable income. It is not subject to tax withholding or reporting, however, if at least one of the following three conditions exists:

1. On September 24, 1975, the individual was either a member of a Uniformed Service or was under a binding written commitment to become a member.

2. The entitlement resulted from combat-related injury or illness, as determined by the Secretary of the Military Service concerned (or designee), which happens as a result of any of the following activities.

- a. As a direct result of armed conflict.
- b. While actually performing extra-hazardous service, even if the service does not directly involve combat.
- c. Under conditions simulating war, including maneuvers or training.
- d. By an instrumentality of war, such as weapons.

3. The member has official notification from the Department of Veterans Affairs (VA) approving entitlement to disability compensation for the same illness or injury that caused the entitlement to disability severance pay.

B. Withholding Taxes. Withhold income taxes on all payments of disability severance pay unless the member qualifies for an exemption under subparagraph 350404.A, above, of this paragraph. Finance or personnel officers should advise members that payments of disability severance pay could become nontaxable if the VA awards disability compensation for the same illness or injury for which disability severance pay was paid.

NOTE: The VA may award disability compensation in either the same tax year or a subsequent tax year in which a member is paid disability severance pay. Once a member is awarded disability compensation, a refund of the income taxes withheld may be requested as discussed in the subparagraphs 350404.C and D, below.

C. VA Compensation Awarded in the Tax Year of Payment. Finance or personnel officers should advise members that a refund of taxes withheld may be obtained from the supporting DFAS Center if disability compensation from the VA is awarded in the same calendar year in which the member received disability severance pay. To obtain a refund from the DFAS, requests must be submitted by December 31st of the year in which a disability severance pay payment is paid. In addition, a member who requests a refund must provide documentation to substantiate that the disability compensation award from the VA was awarded for the same injury or illness for which the member received disability severance pay.

D. VA Compensation Awarded in Tax Year After Payment. Finance or personnel officers should advise members that a refund for income taxes withheld must be obtained from the Internal Revenue Service (IRS) if disability compensation from the VA is awarded in a different calendar year than the year in which the member received disability severance pay. The member also should be advised to submit the appropriate documentation from the VA along with related separation documents to claim a reduction in taxable income. A corrected IRS Form W-2 or other documents to support the decrease in taxable income will not be issued.

350405. Availability To Liquidate Debts. Disability severance pay may be used to liquidate debts to the U.S. Government.

350406. Deduction From VA Compensation. The VA deducts disability severance pay from any VA compensation to which the member or dependents later become entitled for the same disability. Deductions are not made from death compensation to which dependents become entitled after the member's death.

350407. Other Benefits and Claims. A member paid disability severance pay is not entitled to any payment from the Military Service for, or arising out of, service before separation. This does not prohibit payment if an amount is due the member on the date of separation, or if a claim is allowed under law.