

STATE INCOME TAX KNOWLEDGE AND THE
SELECTION OF DOMICILE BY ACTIVE
DUTY AIR FORCE PERSONNEL

By

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CHAPTER I

INTRODUCTION

Individual tax responsibility for military personnel may differ drastically from civilians relative to the state income tax imposed on employment compensation in the state of Oklahoma. Military personnel with assigned active duty in Oklahoma may or may not be subject to state income tax on their military compensation. In contrast "a civilian living or working in an income tax state will be liable for that state's tax regardless of domicile" (Advisory Commission on Intergovernmental Relations, 1976, pp. 27-28).

It is conceivable that an active duty Air Force member could be stationed throughout his or her military career in Oklahoma, using many of the state funded benefits available, but never be obligated to pay state income tax. It is also possible that an active duty Air Force member could have initially entered the Air Force from Oklahoma as his domicile or legal residence state but never be stationed at any of the states' military installations throughout his career. His or her military compensation is taxed as a result of his legal residence or domicile established in Oklahoma and verified with the Air Force Accounting and Finance office at the initial entry base of the military

member (AFM 177-373, Vol 1, (C4), 1983, pp. 49-6). For the purposes of this research study, legal residence or domicile are used interchangeably and have the same meaning.

At the present, there are a number of states with income tax provisions, including some that exempt all or part of military compensation. Furthermore, there are several states that exempt military compensation if living out of that states' boundaries. There are forty-one states and the District of Columbia with state income tax provisions, including Oklahoma, and nine states without income tax (Sharff and Gordon, 1985, pp. 66-71). Five of these states exempt all military pay from state taxation (AFM 171-373, Vol 1, (C4), 1983, pp. A14-1 and 2). AFM 177-373, Vol 1, (1983) lists eight more states exempting all military pay if stationed outside the boundaries of that particular state. Table I provides applicable state tax information on military compensation (AFM 177-373, Vol 1, (C4), 1983, pp. A14-1 and 2).

Selection of domicile determines an individual's state tax responsibility. "The subject of state taxation of military revolves around the question of domicile" (Losey, 1977, pp. 39). Active duty Air Force personnel may or may not be subject to state taxes due to the domicile or legal residence they have established, regardless of the assignment location, stateside or overseas. The Advisory Commission (1976, pp. 23) notes that "non-military pay of military members is subject to tax in the state where it is

TABLE I
GENERAL STATE INCOME TAX INFORMATION

APM 177-373 Volume I (C4) Attachment 14 15 July 1983 A14-1

General State Income Tax Information

<u>State</u>	<u>Code</u>	<u>State Income Tax</u>	<u>Military Pay Taxed</u>	<u>Withholding</u>	<u>One-time Entitlement Tax Rate</u>
Alabama	01	YES	YES	YES	3%
Alaska	02	YES	NO	NO	
Arizona	04	YES	YES	YES	(only if tax- payer elects)
Arkansas	05	YES	YES	YES	7%
California	06	YES	YES (note 1)	YES	3% (0% for accrued leave)
Colorado	06	YES	YES	YES	5%
Connecticut	09	NO			
Delaware	10	YES	YES	YES	4%
District of Columbia	11	YES	YES	YES	4%
Florida	12	NO			
Georgia	13	YES	YES	YES	4%
Hawaii	15	YES	YES	YES	4%
Idaho	16	YES	YES (note 1)	YES	4%
Illinois	17	YES	NO	NO	
Indiana	18	YES	YES	YES	3%
Iowa	19	YES	YES	YES	4%
Kansas	20	YES	YES	YES	5%
Kentucky	21	YES	YES	YES	4%
Louisiana	22	YES	YES	YES	1.5%
Maine	23	YES	YES	YES	10%
Maryland	24	YES	YES	YES	4%
Massachusetts	25	YES	YES	YES	4%
Michigan	26	YES	NO	NO	
Minnesota	27	YES	YES	YES	7%
Mississippi	28	YES	YES	YES	4%
Missouri	29	YES	YES (note 1)	NO	
Montana	30	YES	NO	NO	
Nebraska	31	YES	YES	YES	3.4%
Nevada	32	NO			
New Hampshire	33	NO			

TABLE I (Continued)

A14-2

AFM 177-373 Volume I (C4) Attachment 14 15 July 1983

General State Income Tax Information

<u>State</u>	<u>Code</u>	<u>State Income Tax</u>	<u>Military Pay Taxed</u>	<u>Withholding</u>	<u>One-time Entitlement Tax Rate</u>
New Jersey	34	YES	YES (note 2)	YES	2.2%
New Mexico	35	YES	YES	YES	4%
New York	36	YES	YES (note 2)	YES	5%
North Carolina	37	YES	YES	YES	4%
North Dakota	38	YES	YES	NO	
Ohio	39	YES	YES	YES	2%
Oklahoma	40	YES	YES	YES	4%
Oregon	41	YES	YES (note 2)	YES	10%
Pennsylvania	42	YES	YES (note 1)	YES	2.2%
Rhode Island	44	YES	YES	YES	4%
South Carolina	45	YES	YES	YES	7%
South Dakota	46	NO			
Tennessee	47	NO			
Texas	48	NO			
Utah	49	YES	YES	YES	5.2%
Vermont	50	YES	NO	NO	
Virginia	51	YES	YES	YES	4%
Washington	53	NO			
West Virginia	54	YES	YES (note 1)	NO	
Wisconsin	55	YES	YES	YES	4%
Wyoming	56	NO			

NOTES:

1. The military pay of members who are not residing in their States of legal residence is not taxed. There are no deductions for SITW from their pay.
2. The military pay of members who are not residing in their States of legal residence and who meet the conditions of the "three-prong test" is not taxed. These members must certify annually to prevent deductions of SITW from their pay.
3. If member is not residing in his/her State of legal residence and no deduction is currently being made for SITW from the normal monthly pay, no SITW is deducted from one-time entitlements. This applies to members outlined in notes 1 and 2.

earned, as in the case with earnings of civilians."

Since 1942, Section 514 of the Soldiers' and Sailors' Civil Relief Act has allowed only the state of domicile of an active duty member to tax his military pay, regardless of where he is assigned (50 U.S.C. App. Section 574, 1980, p. 368). "Once domicile has been established, physical presence is not necessary to maintain that domicile. Thus, a military person can be domiciled in one jurisdiction and simultaneously be a resident of another" (Advisory Commission on Intergovernmental Relations, 1976, p. 22).

As a volunteer tax return preparer since 1982, the writer has prepared over 75 tax returns including federal and state for both officer and enlisted Air Force members. During many tax assistance sessions, questions and concern would arise as to how to avoid the state tax dilemma that faces Air Force members domiciled in income tax states but not living in their domiciled state. Unethical and/or illegal versions of how Air Force members declared a new domicile to deliberately evade state income taxes were shared by clients. These experiences suggest that Air Force Regulation 30-30 (1983, p. 13) expects "a military employee to meet all just financial obligations, especially those - such as federal, state or local taxes - which are imposed by law." Additionally, the writer has been asked to help determine if Oklahoma state income tax rates and advantages were more favorable than a members present domicile state. The possibility of changing domicile to Oklahoma exists by

nature of physical presence in the state. It should be noted that "to change domicile, there must be a change of residence altogether with the intent to make the new residence the permanent home" (Josephs, 1981, p. 57). Losey (1977, p. 50) notes that only Florida has specific statute when one desires to establish domicile in Florida when changing from another state. One must file a declaration of domicile in the intended domicile county courthouse with the clerk of the circuit court only after acquiring Florida voter registration, Florida auto tags, and drivers license (The Florida Law Study, 1984, p. 11).

The responsibility of an Air Force member insuring that state tax withholdings occur when domiciled in an income tax state is usually not a problem. The 1976 Tax Reform Act created Public Law 94-455 which mandatorily began state tax withholdings on all members of the Armed Forces in their domicile by the Department of Defense (United States Code - Congressional and Administrative News, Vol 4, 1976, pp. 3191-3192). Withholding of state taxes was voluntary by military members prior to this legislation; thus lack of withholdings caused an enormous evasion problem that faced each state's revenue collection (Advisory Commission on Intergovernmental Relations, 1976, p. 27). The Advisory Commission (1976) estimated that \$94 million were lost in state revenue (1975) due to incomplete tax compliance by military personnel from inadvertent and deliberate evasion. Much of this problem was eliminated by requiring all active

duty forces to declare their state of legal residence starting in mid-1977 and thereafter upon entering the Armed Forces. Figure 1 is a reproduction of the official certification used by Air Force Accounting and Finance officials in determining domicile of an Air Force member for state tax withholdings purposes (AFM 171-373, Vol 1, (C1) 1981, p. 49-20). As discussed earlier, this Department of Defense form is used when an Air Force member enters active duty and also when an Air Force member changes domicile. This declaration form will in turn initiate tax withholding action if required by the domicile state. Paragraph 5 describes specific requirements for changing domicile.

In a brief visit with one Air Force Accounting and Finance official at Tinker AFB, Oklahoma, the writer was informed that many junior enlisted Air Force personnel declare new domicile in no-tax or military pay exempt states with deliberate intentions of having more spendable income. This official noted that no proof of new domicile was required as evidence since it's truly not their responsibility to determine the legality. The last two statement items in Figure 1 prior to the signature block indicate the burden and legal responsibility is placed on the military member.

With these observations in mind, it is concluded that a problem exists in the Air Force and probably within the rest of the Armed Forces. The issue of basic state tax knowledge,

STATE OF LEGAL RESIDENCE CERTIFICATE		
DATA REQUIRED BY THE PRIVACY ACT OF 1974		
AUTHORITY:	Tax Reform Act of 1976, Public Law 94-458.	
PURPOSE:	Information is required for determining the correct State of legal residence for purposes of withholding State income taxes from military pay.	
ROUTINE USES:	Information herein will be furnished State authorities and to Members of Congress.	
MANDATORY OR VOLUNTARY DISCLOSURE:	Disclosure is voluntary. If not provided, State income taxes will be withheld based on the tax laws of the State previously certified as your legal residence, or in the absence of a prior certification, the tax laws of the applicable State based on your home of record.	
NAME (Last, first middle initial)	Hendrickson, Dennis C.	SOCIAL SECURITY NUMBER (SSN) 111-11-1111
LEGAL RESIDENCE/DOMICILE (City or county and State) Aurora, Colorado		
INSTRUCTIONS FOR CERTIFICATION OF STATE OF LEGAL RESIDENCE		
<p>The purpose of this certificate is to obtain information with respect to your legal residence/domicile for the purpose of determining the State for which income taxes are to be withheld from your "wages" as defined by Section 3401(a) of the Internal Revenue Code of 1954. PLEASE READ INSTRUCTIONS CAREFULLY BEFORE SIGNING.</p> <p>The terms "legal residence" and "domicile" are essentially interchangeable. In brief, they are used to denote that place where you have your permanent home and to which, whenever you are absent, you have the intention of returning. The Soldiers' and Sailors' Civil Relief Act protects your military pay from the income taxes of the State in which you reside by reason of military orders unless that is also your legal residence/domicile. The Act further provides that no change in your State of legal residence/domicile will occur solely as a result of your being ordered to a new duty station.</p> <p>You should not confuse the State which is your "home of record" with your State of legal residence/domicile. Your "home of record" is used for fixing travel and transportation allowances. A "home of record" must be changed if it was erroneously or fraudulently recorded initially.</p> <p>Enlisted members may change their "home of record" at the time they sign a new enlistment contract. Officers may not change their "home of record" except to correct an error, or after a break in service. The State which is your "home of record" may be your State of legal residence/domicile only if it meets certain criteria.</p> <p>The formula for changing your State of legal residence/domicile is simply stated as follows: <u>physical presence in the new State with the simultaneous intent of making it your permanent home and abandonment of the old State of legal residence/domicile.</u> In most cases, you must actually reside in the new State at the time you form the intent to make it your permanent home. Such intent must be clearly indicated. Your intent to make the new State your permanent home may be indicated by certain actions such as: (1) registering to vote; (2) purchasing residential property or an unimproved residential lot; (3) titling and registering your automobile(s); (4) notifying the State of your previous legal residence/domicile of the change in your State of legal residence/domicile; and (5) preparing a new last will and testament which indicates your new State of legal residence/domicile. Finally, you must comply with the applicable tax laws of the State which is your new legal residence/domicile.</p> <p>Generally, unless these steps have been taken, it is doubtful that your State of legal residence/domicile has changed. Failure to resolve any doubts as to your State of legal residence/domicile may adversely impact on certain legal privileges which depend upon legal residence/domicile including among others, eligibility for resident tuition rates at State universities, eligibility to vote or be a candidate for public office, and eligibility for various welfare benefits. If you have any doubt with regard to your State of legal residence/domicile, you are advised to see your Legal Assistance Officer (JAG Representative) for advice prior to completing this form.</p>		
I certify that to the best of my knowledge and belief, I have met all the requirements for legal residence/domicile in the State claimed above and that the information provided is correct.		
I understand that the tax authorities of my former State of legal residence/domicile will be notified of this certificate.		
SIGNATURE Dennis C. Hendrickson	CURRENT MAILING ADDRESS (Include ZIP Code) 330 So Ursula Way Aurora Co 80012	DATE 1 Aug 1981
DD FORM 2058 1 FEB 77		<small>U.S. Government Printing Office: 1981-546-875/371</small>

Figure 49-13. DD Form 2058, State of Legal Residence Certificate.

Figure 1. State of Legal Residence Certificate

considerations in selecting and changing domicile, and the desire to have more spendable income by avoiding or eliminating a state tax burden are only parts of the problem. Military members may have no state tax responsibilities, but may have working spouses and dependents that are faced with state tax responsibility and filing while the military member is stationed in that state. Additionally, the mobility factor of military members causes a filing problem for himself or working spouses and dependents at the end of the tax year. Some active duty Air Force members fear seeking proper and reliable state tax information from civilian or military legal sources; some fearing they have committed a tax evasion offense from changing domicile or forgetting to file or wanting to file but have not done so because of the lack of tax forms for their state. Others have refused to file in their domicile state for refunds because they lacked tax forms or assumed the tax due equaled or exceeded the withholding tax.

In February Of 1985, the writer made one visit to the office of the Staff Judge Advocate at Tinker AFB, Oklahoma. In attempting to locate one Federal Tax form from the Judge Advocate office, observation revealed that no more than two dozen states were represented with state tax forms available to the military taxpayer. With a situation such as this or at any other base, an Air Force member might feel "the easiest way to evade taxes is simply not to file, even if the domiciled state taxes military pay. The evasion

10 may be identifiable, but only through very diligent and costly state tax administration" (Advisory Commission on Intergovernmental Relations, 1976, p. 27). Some may be unknowledgeable, irresponsible or fear the tax consequences and annual burden while others may be well versed, knowledgeable, and responsible within state laws.

Therefore, the knowledge level of active duty Air Force officer and enlisted members pertaining to factors in state income tax and individual responsibility will be explored. Methods used by Air Force members in selecting and changing domicile will be determined. The increase in personal income may play a role in domicile selection or evasion of tax responsibility.

Results of this study will be used in recommending ways to provide state tax education for military members that desire knowledge for tax planning and ethical reasons. Furthermore, this study may be valuable to military officials in requiring military employees to prove their new domicile when the desire to change domicile presents itself, particularly when domicile changes are made from tax states to no-tax states or states that exempt all military pay.

Statement of Problem

There was a need to determine how active duty Air Force members perceived their responsibility for state income tax. The purpose of this study was to determine how members seek

a legal domicile and to see if legal procedures in establishing domicile in no-tax or military pay exempt states were observed.

Research Questions

The research sought to answer the following questions:

1. Do active duty Air Force members have knowledge of state income tax responsibilities when seeking a legal domicile?

2. Do active duty Air Force members observe the legal procedures in establishing domicile in no-tax or military pay exempt states?

3. What methods are used by active duty Air Force members to change domicile to no-tax or military pay exempt states?

4. Is there a relationship between changing domicile to avoid or eliminate state income tax responsibility and increasing income due to promotion or longevity?

Assumptions

The assumptions of this study include the following:

1. The active duty Air Force participants contacted in this survey will give accurate information and cooperative assistance.

2. The conclusions will be only valid for the military population from which the survey was taken.

3. The participants will respond more readily to a personal interview if made aware that all individual survey information will remain strictly confidential as to the source.

Limitations

This study is limited by the following factor:

Access to official rosters of military members stationed at Tinker AFB, Oklahoma is unavailable because the roster listings are for "Official Use Only" by the Department of Defense. Therefore, the population for the study was limited to military respondents available for interviewing by the researcher at Tinker AFB.

Definitions

The terms used in this study were defined as follows:

Domicile: "The permanent residence of a person or the place to which he intends to return even though he may actually reside elsewhere. A person may have more than one residence but only one domicile. The legal domicile of a person is important since it, rather than actual residence, often controls jurisdiction of the taxing authority and determines where a person may exercise the privilege of voting and other legal rights and privileges" (Black, 1979, p. 435).

Evasion: "An act of eluding, dodging, or avoiding, or avoidance by artifice. Tax "evasion" is to be distinguished

from tax "avoidance," the former meaning the illegal nonpayment of taxes due, the latter referring to the legal reduction or nonpayment of taxes through allowable deductions, exemptions, etc.," (Black, 1979, p. 497).

Income Tax: "Tax levied by the U.S. Government, and by some state governments, on tax payers income" (Black, 1979, p. 688).

Income Tax Returns: "Forms required by taxing authority to be completed by taxpayer, disclosing all items necessary for computation of tax and the computation itself" (Black, 1979, p. 688).

Legal Residence: See definition of domicile (Black, 1979, p. 807).

Withholding Tax: "A tax which is collected by deducting from the wages on an employee, e.g., federal income taxes" (Black, 1979, p. 1309).

CHAPTER II

REVIEW OF LITERATURE

The review of literature reveals several aspects of tax responsibility of active duty military and their choices of domicile. The material includes an extensive U.S. Government Commission study conducted in 1976 on military members state tax responsibility and congressional legislative action which resulted from the study. Two other articles from one author portray current 1984 data on domicile selection, rank and the selection of states that provide advantageous tax avoidance benefit. A military legal official at an Air Force base was contacted to determine the extent of tax education afforded to new members in the Air Force. An Air Force lawyer reveals the discrepancies involved in defining domicile and legal residence. The government study mentioned throughout Chapter one reveals examples of how military personnel viewed their tax responsibility prior to the 1976 Tax Reform Act. Additionally, the two 1984 sources define how many military members are currently domiciled in tax states verses no-tax or military pay exempt states and the extent of the state tax burden that different military ranks may or may not share.

Tax Knowledge and Responsibility

Military compensation has been subject to state income tax withholdings since 1977. The passage of Public Law 94-455 specified mandatory withholdings on military compensation in domiciled income tax states (United States Code-Congressional and Administrative News, Vol 4, 1976, pp. 3191-3192). According to the Advisory Commission (1976, p. 23) the "absence of withholding results in both uncertainty on part of the military regarding their state or local obligations and non-compliance with tax laws." The Commission also noted that one young enlisted military person from Kentucky, a state which imposes income tax, quoted "I've never paid because they've never notified me. I guess if I owe something they'll let me know. No one has ever told me anything about taxes since I've been in the service. If I have to pay, I would want them to take it out like other taxes" (Advisory Commission on Intergovernmental Relations, 1976, p. 23). The aspect of tax knowledge and responsibility is obvious from that statement from one person.

The degree of responsibility accepted by military personnel today, as compared to the responsibility accepted by this one enlisted member 10 years ago is assumed to be greater since mandatory withholding occur and each member receives an IRS W-2 form to be filed with Federal and State taxing authorities reflecting that withholdings have occurred. On the other hand, personal telephone

communication with Master Sergeant Clarence Joe of the Office of the Staff Judge Advocate at Lackland AFB, Texas, revealed that currently special briefings on tax issues and responsibilities are not conducted for new Air Force members. Lackland AFB is the single basic training facility where all new enlistees and candidates for Air Force Officer Training School enter the Air Force. Essentially, each member declares legal residence or domicile at this entry point as described in the first chapter.

The extent of knowing if military personnel assume responsibility for filing state tax return or observing domicile rules during an Air Force career is uncertain. "To presume that every military member who has moved from state to state should know and understand the nuances of domicile is a patently unfair presumption" (Losey, 1977, pp. 43-44).

Tax Filing in Domicile Prior to 1976

The Advisory Commission on Intergovernmental Relations (1976) reveals a study conducted in the tax year 1971 that inquired as to how active duty military members filed in the District of Columbia and Maryland. From 57 returns filed for Federal purposes, 15 had filed in a state claimed as a legal residence (26% complied with existing law of their home state). Furthermore, 23 had not filed because they claimed domicile in no-tax or military pay exempt state. The remaining 19 did not comply with existing law of their domiciled income tax state simply by not filing.

Essentially, 74% were not paying taxes, knowing they had no obligation or didn't want an obligation.

The Commission (1976, p. 29) notes "the sample is extremely small and thus sweeping generalizations are not warranted." The Commission notes another study from 1974 that showed armed forces members claiming Minnesota as a legal domicile. 38,300 members selected domicile but only 9,595 state returns were filed in Minnesota (Advisory Commission on Intergovernmental Relations, 1976, p. 29). In addition to domicile selection data, the aspect of increased income was also viewed by the Advisory Commission (1976, p. 32) and concluded "that many military personnel-particularly higher paid personnel-perceived the tax advantages available under current state income tax laws as they apply to the military, and that significant members take advantage of the opportunity to evade state income taxes through domicile selection."

Domicile Selection in 1984

Evidence from the Advisory Commission data from the mid-1970s describing the aspect of increased income of military members causes domicile changes to evade state income tax is quite different in a 1984 Government Accounting Office investigation. Maze (July 1984, p. 2) reveals that for officers, 66% of all Air Force Colonels are domiciled in no-tax or military pay exempt states. On the enlisted side of the Air Force he (Maze, July 1984, p. 12)

demonstrates that 57% of all Chief Master Sergeants were domiciled in tax advantage states but only 27% of all Airman Basics were domiciled in no-tax or military pay exempt states. His ideas from the Government Accounting Office investigation suggests that Colonels and Chiefs probably have had more opportunities to change domicile by virtue of changing assignment location many times over an Air Force career.

Reference to the aspect of increased income being incentive to change domicile to a no-tax or military pay exempt state is not evident in Maze's article. Maze (July 1984, p. 12) points out that of the 66% of Air Force Colonels domiciled in no-tax or military pay exempt states, only 28% are currently stationed in one of the tax advantage states, Only 30% of the Second Lieutenants domiciled in no-tax or military pay exempt states were currently stationed in no-tax or military pay exempt states. Contrary to the officers, 48% of the Airman Basic enlisted members were stationed in no-tax or military pay exempt states, but again 27% had established domicile in no-tax or military pay exempt states.

Military Members Assume Their Tax Responsibility

In another study, Maze (May 1984, p. 12) identifies that 60% of all military members claim domicile in income tax states. His sources are identified as Department of

Defense Statistics. He notes that Texas and Florida are identified as the states that domicile 392,333 military members of the 2,320,075 military population on active duty. The researcher determined in Chapter one that Texas, Florida, Tennessee, South Dakota, Washington, Wyoming, Nevada, New Hampshire, and Connecticut are no-tax states (AFM 177-373, Vol 1, (C4), 1983, pp. A14-1 and 2). However, three income tax states including California, Ohio, and New York were domicile of 428,432 military members.

It is necessary to note that military members stationed out of the boundaries of California and New York are exempt from state income taxes (AFM 177-373, Vol 1 (C4), 1983, p. A14-2). Maze (May 1984, p. 12) details that North Carolina, Virginia, and Georgia withheld over \$67,868,206 of \$279,075,039 of state withholdings for the entire military population. These three states account for over 24% of the withholding tax total of the entire military population, but account for only 191,695 members domiciled in those three states.

Myths in Establishing Domicile

According to Losey (1977, p. 40) there is significant confusion and suspicion as to understanding the definition of domicile, legal residence, home address, and home of record. He notes that military personnel tend to use these terms synonymously. This writer has noted similar vocabulary used by tax clients in volunteer preparation sessions. As

defined, domicile and legal residence carry much the same meaning. The Air Force uses home address and home of record for travel records or distance criteria in moving of military members and their families. Losey (1977, p. 49) states that "many military members do not fully understand that in order to establish a legal domicile, one must be physically present in a state at the same time he manifests his intent to make the state his domicile." Losey (p.49) points out that actions to establish domicile can cause conflict. "Typically, a military member declares in a 'will' that he is domiciled in one state, but registers his car in another, acquires drivers license in a third and votes in a fourth" (Losey, 1977, p. 49). Conflicting domiciliary action poses a legal dilemma on the member in which he should attempt to extricate himself (Losey, 1977, pp. 49-50).

Summary

Current research and study reveals only the quantity of military members domiciled in no-tax or military pay exempt states as well as military domiciled in tax state. Information also exists as to how the different ranks are domiciled in a tax state or no-tax/military pay exempt states. Factors such as military rank, educational level, annual income, ownership of property and the methods of establishing domicile are not sufficiently researched.

CHAPTER III

METHOD AND PROCEDURES

This chapter explains the type of research used to determine the relationship of selected demographic variables and the degree of knowledge of state income tax and legal domicile issues that active duty Air Force members possess. Additionally, a process of determining the methods used by active duty Air Force to select and change domicile are revealed. The population used for this study is defined and the methodology of a written questionnaire personally administered to the respondent are noted. The instrumentation and the method for interpreting the data and the data analysis are discussed.

Type of Research

The type of research exercised in this study was a combination of an explorative and descriptive type. Exploratory studies have several purposes, one with which to "simply satisfy the researchers curiosity and desire for better understanding" (Babbie, 1983, p. 74). While description research involves an interpretation of conditions that exist; he "observes and then describes what was observed" (Babbie, 1983, p. 75).

This research explored the factors such as military rank, educational level, annual income and the ownership of personal property of active duty Air Force members with how much knowledge they have about state income tax, responsibility and issues of domicile selection.

Personal interview was selected for this research problem in surveying active duty Air Force members. This type of interview allows personal attention to any questions the respondents may have during or after the interview. Additionally, the personal interview eased the potential fear that some respondents may have in providing private financial information. Reassurance that individual confidentiality would be observed was explained before and after the survey was conducted. The survey in a written draft was pretested on six military members of both enlisted and officer rank, not part of the sample. Their review and consideration aided in clarity of two questions and added revision and rewording of another. The questionnaire was revised with those pretest recommendations.

Selection of Population

The population of this study was forty active duty Air Force members stationed at Tinker AFB, Oklahoma. An equal number of both officer and enlisted respondents were included. The researcher could not use an official roster listing generated by Tinker AFB administration records. Such

roster listings of officer and enlisted members are for "Official Use Only" and are protected by Privacy Act legislation. The selection therefore rested on the researcher contacting individuals and visiting work areas in the Oklahoma City Air Logistics Center and the 552nd Airborne Warning and Control Wing to secure a sample. Each respondent was approached personally and asked to participate. The researcher did not identify the respondents. All surveys were assigned a numerical identification when the data collection process was completed. This insured anonymity of each respondent. The survey was implemented over a course of three weeks in October 1985.

Instrumentation

This survey instrument was designed to collect data from forty active duty Air Force respondents concerning their familiarity with state income tax matters, selection of domicile, and the methods of selecting domicile in no-tax or military pay exempt states. A copy of the questionnaire is reproduced in the Appendix. The first three questions in the survey determine rank, level of education, and ownership of property. The next three questions asked the respondent to identify their state of legal domicile and if this state was the same identified as their legal residence from their Leave and Earnings Statement. Also, the respondent was asked if legal residence

and domicile had the same meaning. Question seven determines if the respondent has withholdings administered against their military compensation. This question then divides the survey into two sections. Questions eight through fourteen deal specifically with military members that have state tax withholdings administered against military compensation. These questions ask attitude related decisions of the respondents present tax status, their ability to comprehend the tax responsibility and the procedure one would follow to change domicile.

Question fifteen through twenty relate specifically to military members that do not have state tax withholdings administered against their military compensation. Question fifteen determines which military members entered the Air Force from no-tax or military pay exempt states, while question sixteen and seventeen determine the actions those respondents might take if the no-tax or military pay exempt state started income tax provisions. In questions eighteen and nineteen, it was asked the procedures used by military members as to how their former tax domicile was changed to a no-tax or military pay exempt state. Questions twenty through twenty-two asked attitude related decisions of the respondents present tax status, responsibility and the grounds for changing domicile to eliminate state tax as military rank and pay increased. The last question asked annual income of the military member.

Data Analysis

The data were analyzed by descriptive statistics. Responses to demographic features such as rank, educational level, ownership of property and annual income of the member were analyzed by frequency and percentage to define the characteristics of the sample. The percentage of members whose military compensation is subject to state income tax was determined from the sample.

To analyze the relationship of the demographic features and the respondents knowledge that domicile and legal residence have the same meaning, the researcher compared the respondents present tax status with their understanding of domicile and legal residence terminology. A bivariate analysis was conducted using knowledge of the meaning of domicile and legal residence as a dependent variable against independent variables: level of education, rank and annual income. The military members subject to state taxes were analyzed by scaling to determine their attitudes, knowledge and responsibilities. Percentages were applied to legal actions the military member had taken in the state that taxes their military compensation and possible future actions if changing domicile to a no-tax or military pay exempt state.

The portion of the sample not subject to state income taxes was analyzed by percentages to determine what legal procedures they had initiated to establish domicile in no-tax or military pay exempt states. Also, scaling was

used to determine the attitude of the members perception as to what legal consideration should be accomplished in changing domicile to a no-tax or military pay exempt state. To analyze the relationship of changing domicile to avoid or eliminate state tax responsibility as the military members compensation increases over their career, scaling was used to determine a positive and negative attitude. A bivariant analysis was conducted using the attitudes as a dependent variable against independent variables: rank, educational level, and annual income. This comparison exists only in the sample studied and may not be prevalent throughout the Air Force.

CHAPTER IV

RESULTS AND DISCUSSION

This chapter presents the findings of this research study. The chapter is divided into five areas in the following order: (1) features of the sample group; (2) attitudes, knowledge, and responsibility of military members that have military income subject to state income taxes; (3) present and future legal actions of the sample that is currently taxed and the attitudes of that sample in future domicile actions; (4) methods used by the sample to establish domicile in no-tax or military pay exempt states; and (5) changing domicile to reduce state tax or eliminate state tax responsibility as ones compensation increases over their career.

Features of the Sample

The sample for this survey consisted of forty respondents with an overall response rate of one hundred percent. All respondents were active duty Air Force members stationed at Tinker AFB, Oklahoma. The distribution of respondents by rank, educational level, ownership of property and annual income is presented in Table II. Twenty of the respondents were enlisted personnel and 20 were

officers. Of the enlisted personnel, nine were E-1 through E-4, which is junior enlisted rank and eleven were E-5 through E-9, which is senior enlisted rank. The other twenty respondents had equal numbers of ten O-1 through O-3, which is junior officer rank and ten O-4 or greater, which is senior officer rank. Fifty percent were enlisted and 50 percent were officers. Nineteen of the respondents had less than a college education, while 21 had a college bachelors degree or greater. Also, 32 of the 40 respondents owned property such as land, a house, a mobile home or rental property. Eighty percent surveyed owned property. All officers were part of the 80 percent. The income was separated into five different categories ranging from less than \$10,000 in the first category to greater than \$40,000 in the fifth category. Four respondents were in the less than \$10,000 category; ten were in the \$10,001 to \$20,000 category; six in the \$20,001 to \$30,000 category; thirteen in the \$30,001 to \$40,000 and seven in the greater than \$40,001 category.

TABLE II
 FEATURES OF THE SAMPLE
 (n=40)

Characteristics	Number	Percent
<u>Rank</u>		
E-1 - E-4	9	22.5
E-5 - E-9	11	27.5
O-1 - O-3	10	25.0
O-4 and over	<u>10</u>	<u>25.0</u>
Total	40	100.0%
<u>Educational level</u>		
High School	7	
Some College but no Degree	12	
Subtotal	(19)	47.5
Bachelor's Degree	10	
Advanced College but no Master's	6	
Master's Degree or greater	5	
Subtotal	(21)	<u>52.5</u>
Total	40	100.0%
<u>Ownership of Property</u>		
Owner	32	80
Non-Owner	<u>8</u>	<u>20</u>
Total	40	100%
<u>Annual Income</u>		
\$10,000 or Less	4	10
\$10,001 - \$20,000	10	25
\$20,001 - \$30,000	6	15
\$30,001 - \$40,000	13	32.5
\$40,001 and greater	<u>7</u>	<u>17.5</u>
Total	40	100.0%

Of the 40 respondents, 18 were subject to state tax withholdings and 22 have no state tax responsibility. Two respondents were in conflict when asked the identity of their state of domicile and the identity of the state of legal residence reflected on their monthly leave and earnings statement. Twenty-one respondents were aware that domicile and legal residence had the same meaning while 3 responded that both words did not mean the same. Sixteen did not know either way.

Table III reflects the present tax withholding status and data to support knowledge of the meaning of domicile and legal residence of the 40 respondents. Fifty-two and one half percent were knowledgeable that domicile and legal residence had the same meaning, while forty-seven and one half percent did not know or felt the meanings were different. Military members not subject to state taxes seemed to be more knowledgeable that domicile and legal residence meant the same.

The distribution of respondents by educational level and meaning of domicile and legal residence is presented in Table III. Of those surveyed forty-seven and one half percent had less than a college degree while fifty-two and one half percent held a college bachelor's degree or greater. It seems that military members with a bachelor's degree or greater were more knowledgeable that domicile and legal residence had the same meaning.

The distribution of respondents by rank and meaning of

domicile and legal residence is also presented in Table III. Of those surveyed, 50 percent were enlisted while 50 percent were officers. Knowledge of the meaning of domicile and legal residence was more prevalent among officers.

TABLE III
DISTRIBUTION OF WITHHOLDING STATUS,
RANK, AND LEVEL OF EDUCATION
TO MEANING OF DOMICILE
AND LEGAL RESIDENCE
(n=40)

Tax Status	Same Meaning	Different Meaning	Don't Know	Total
<u>Tax status</u>				
Withheld	7	1	10	18
Not Withheld	14	2	6	22
Total	21	3	16	40
<u>Educational level</u>				
Less than College Degree	5	1	13	19
Bachelor's and Greater	16	2	3	21
Total	21	3	16	40
<u>Rank</u>				
Enlisted	6	1	13	20
Officer	15	2	3	20
Total	21	3	16	40

Attitudes, Knowledge and Responsibility

Of the 40 respondents, 18 were subject to state income tax due to the domicile they have established. In an attempt to determine attitude, knowledge, and responsibility in their present tax status or future status, the survey asked three questions to reflect a scale to measure the respondents attitude, knowledge, and responsibility. Of the 18, only one had changed domicile from one tax state to another. Twelve of 18 (67 percent) agreed they would change domicile after researching the tax advantages and rules for changing domicile. On the other hand, only nine (50 percent) agreed they had a working knowledge of tax rates to make comparisons between states and nine agreed they have a responsibility to pay state income tax. Two disagreed they had a working knowledge of tax rates and advantages to make comparisons between states. Three disagreed they have a responsibility to pay state income tax. For each of those three questions from the survey, agreement with the questions seems to be more prevalent in the respondent's opinions.

TABLE IV
 ATTITUDES, KNOWLEDGE, AND RESPONSIBILITY
 OF MILITARY MEMBERS SUBJECT TO STATE TAX
 (n=18)

Respondent's Opinions	Number of Respondents			Total
	Agree	Don't Know	Disagree	
Change Domicile after Researching Advantages and Rules	12	5	1	18
Working Knowledge of Tax Rates to make Comparisons between States	9	7	2	18
Have a Responsibility to Pay State Taxes	9	6	3	18

Present and Future Legal Actions and
 the Attitude to Future Actions

The researcher attempted to determine what actions the respondents had taken in their present domicile that taxes their military income and what future action one would take when changing domicile to a no-tax or military pay exempt state. Additionally, the respondents were asked in question 13 if they would observe the rules for changing domicile. Table V presents actions the respondents had taken to establish their domicile in the state that taxes their military income. Fourteen respondents (78 percent) maintain

drivers license and 11 respondents (61 percent) are registered voters in the state that withholds state income tax. The other three actions are less than 50 percent established.

TABLE V
ACTIONS TAKEN TO ESTABLISH DOMICILE IN
THE STATE THAT WITHHOLDS INCOME TAX
(n=18)

Actions	Number of Respondents	% of Total
Owens Property	3	17
Maintains Drivers License	14	78
Has Voter Registration	11	61
Maintains Auto Tags	5	28
Maintains a Legal 'Will' Drawn and Notarized	7	39

Table VI presents a summary of future actions respondents would accomplish in establishing domicile in a no-tax or military pay exempt state. The actions summarized in this table are similar to actions in Table V with the exception of researching which states have no state income tax or exempt military pay and seeking legal assistance from

an authority on domicile matters. Seventeen respondents (94 percent) said they would research to determine which states have no income tax or exempt military pay. The other 5 actions listed in question 13 were negative responses for more than the majority of the 18 respondents. The rules for establishing domicile in any state are explained in the Figure I example presented in the first chapter.

TABLE VI
 FUTURE ACTIONS TO BE TAKEN TO ESTABLISH
 DOMICILE IN A NO-TAX OR MILITARY
 PAY EXEMPT STATE BY MEMBERS
 SUBJECT TO STATE TAX
 (n=18)

Actions	Number of Respondents Who Would	% of Total
Research to Determine Which States have No Tax or Exempt Military Pay	17	94
Contact Legal Authority	7	39
Purchase Property or Establish Physical Presence	7	39
Establish Voter Registration	6	33
Obtain Auto Tags and Drivers License	4	22
Obtain a Legal 'Will' Drawn and Notarized	4	22

In summarizing question 14 of the survey. The respondents were asked to express their opinion on a scale as to whether the actions listed in Table VI should be considered and accomplished if changing domicile to a no-tax or military pay exempt state. Of the 18, 7 agreed those actions should be considered and accomplished. On the other hand one disagreed. The remaining ten respondents (56 percent) indicated a 'don't know' answer. It would seem these ten respondents were unaware as to the fact that all those requirements should be considered. The one that disagreed could have felt those actions were unnecessary or inconvenient.

Methods Used to Establish Domicile in No-Tax or Military Pay Exempt States

Twenty-two respondents of the sample are not subject to state income tax. Of the 22, 11 respondents entered the Air Force from a state that does not have state income tax or exempts military pay. The other 11 respondents entered the Air Force from a state that has state income tax but have since changed their domicile to a no-tax or military pay exempt state. Those 11 respondents that entered the Air Force from a no-tax or military pay exempt state were asked if they would change their domicile to remain free of state income tax if their present state implemented state income tax. Ten (91 percent) affirmed they would change domicile to another no-tax or military pay exempt state.

Table VII summarizes possible future methods to be used by all 11 respondents to change their domicile to another no-tax or military pay state if the occasion arises. This summary includes the one respondent who said they would not. The survey was designed to capture all the respondents actions regardless of whether they would change to another no tax or military pay exempt domicile. Of the 11 respondents, all (100 percent) agreed they would research to determine which states have no income tax or exempt military pay. Six of the 11 (55 percent) affirmed they would establish voter registration as part of the actions involved in changing domicile. The remaining four actions listed in Table VII from question 17 of the survey were negative responses for more than the majority of these 11 respondents. As previously mentioned, the rules for establishing domicile are explained in the Figure I example.

TABLE VII
 FUTURE ACTIONS TO BE TAKEN TO ESTABLISH
 DOMICILE IN ANOTHER NO-TAX OR MILITARY
 PAY EXEMPT STATE BY MEMBERS NOT
 SUBJECT TO TAX
 (n=11)

Actions	Number of Respondents Who Would	% of Total
Research to Determine Which States have No Tax or Exempt Military Pay	11	100
Contact a Legal Authority	4	36
Purchase Property or Establish Physical Presence	4	36
Establish Voter Registration	6	55
Obtain Auto Tags and Drivers License	4	36
Obtain a Legal 'Will' Drawn and Notarized	3	27

The other 11 respondents of this sample of 22 individuals entered the Air Force from states which have income tax but have since changed to a no-tax or military pay exempt state. The researcher attempted to determine what actions these 11 individuals accomplished when they changed their domicile to a no-tax or military pay exempt state at sometime during their present military service. Table VIII presents those actions these individuals accomplished as part of the lawful procedures involved in changing from a

tax state to a no-tax or pay exempt state. Of the 11, 9 (82 percent) had purchased property, land or a dwelling or at one time established a mailing address through physical presence in that state due to an assignment at a military base. The other actions listed in Table VIII were not accomplished by the majority of these respondents. The responsibility to accomplish these actions is in the hands of the individual. It appears that once property is purchased or physical presence is established the remaining tasks are not completed.

TABLE VIII
ACTIONS TAKEN TO ESTABLISH AND CHANGE
DOMICILE FROM AN INCOME TAX STATE
TO A NO-TAX OR MILITARY PAY
EXEMPT STATE
(n=11)

Actions	Number of Respondents	% of Total
Contacted a Legal Authority	2	18
Purchased Property or Established Physical Presence	9	82
Established Voter Registration	3	27
Obtained Auto Tags and Drivers License; Renewed at Expiration	2	18
Obtained a Legal 'Will' Drawn and Notarized	4	36

The researcher noted Florida laws for establishing domicile in that state since proof of action is required. Five respondents of the 40 are legal residents of Florida. Of these five individuals, three entered the Air Force from Florida. Their domicile is lawfully established. The other two respondents had changed their domicile from a tax state to Florida, which has no state income taxes. Neither of the two respondents indicated in the survey response that they had complied with Florida law on this matter. The specific requirements are to file a declaration with the clerk of the circuit court only after Florida voter registration, auto tags, and drivers license are acquired (The Florida Law Study, 1984, p. 11). Additionally, neither of the two had accomplished any of the other actions listed in Table VIII.

In summarizing question 20 of the survey, all 11 respondents that have changed domicile from a tax state to a no-tax or military pay exempt state were asked to express their opinion on a scale as to whether the actions listed in Table VIII and in question 19 of the survey should be considered and accomplished if changing domicile to a no-tax or military pay exempt state. Of the 11, three agreed with that statement, while seven (64 percent) replied with a 'don't know' response. One respondent disagreed entirely. It appears the seven 'don't know' respondents and the one with disagreement may be unaware as to the fact that all requirements should be considered and accomplished. This lack of affirmation backs up the poor results depicted in

Table VIII. However the majority of these have established physical presence in their present domicile.

Changing Domicile to Reduce State Tax
or Avoid State Tax Responsibility
as Income Increases

Each of the 40 respondents were asked to comment on whether they would change their domicile to avoid or reduce state income tax as their military income increases over their career due to promotion and longevity. Twenty-nine (73 percent) agreed they would change domicile to eliminate responsibility or reduce their state taxes as their pay increases. Six replied with 'don't know' responses while the remaining five disagreed they would change domicile as their pay increases. The researcher attempted to analyze the independent variables of rank, level of education, and annual income to the positive attitude/agreement or negative attitude/disagreement. The distribution of respondents by rank to their attitude is summarized in Table IX. The data revealed higher ranking members agreed they would change their domicile to eliminate the responsibility or reduce their state taxes, 16 of 20 officers.

TABLE IX
RANK AND CHANGING DOMICILE
AS PAY INCREASES
(n=40)

Rank	Agree	Don't Know	Disagree	Total
E-1 - E-3	5	2	2	9
E-4 - E-9	8	2	1	11
O-1 - O-3	9	0	1	10
O-4 or greater	<u>7</u>	<u>2</u>	<u>1</u>	<u>10</u>
Total	29	6	5	40

The distribution of respondents by level of education to their attitude is summarized in Table X. The level of education does not significantly indicate whether a domicile change would occur to eliminate responsibility or reduce state income tax as pay increases.

TABLE X
LEVEL OF EDUCATION AND CHANGING
DOMICILE AS PAY INCREASES
(n=40)

Education Level	Agree	Don't Know	Disagree	Total
Less than College Degree	13	3	3	19
Bachelor's and Greater	<u>16</u>	<u>3</u>	<u>2</u>	<u>21</u>
Total	29	6	5	40

The distribution of respondents by annual income to their attitude is summarized in Table XI. Except for those respondents with less than \$10,000, the majority agreed they would change domicile as their pay increases. Twenty respondents (50 percent) have income greater than \$30,001. Of these 20, 16 (80 percent) agreed they would change domicile. It seems that high income is related to changing domicile to eliminate responsibility or reduce state taxes as income increases.

TABLE XI
ANNUAL INCOME AND CHANGING DOMICILE
AS PAY INCREASES
(n=40)

Annual Income	Agree	Don't Know	Disagree	Total
Less than \$10,000	1	1	2	4
\$10,001 - \$20,000	8	2	0	10
\$20,001 - \$30,000	4	1	1	6
\$30,001 - \$40,000	10	1	2	13
\$40,001 or Greater	<u>6</u>	<u>1</u>	<u>0</u>	<u>7</u>
Total	29	6	5	40

Summary

Of 40 respondents, 18 are subject to state income tax while 22 have no responsibility. All but two declare their

domicile as the same state that withholds or does not withhold state income tax on their military compensation. Fifty-two and one half percent of the entire sample were knowledgeable that domicile and legal residence had the same meaning. Fourteen respondents that were knowledgeable of this terminology are not subject to state income tax. Also, 16 of the 40 have a bachelor's degree or greater and understood the terminology had the same meaning. Fifteen of 20 officers understood the terminology had the same meaning while 14 enlisted members did not know or thought the meanings were different. The 18 subject to state income tax on the whole agree they would change domicile after researching the advantages and rules. Additionally, 50 percent agreed they have a working knowledge of tax rates to make comparisons between states. Also, nine of 18 agreed they have a responsibility to pay tax. Of the 18, 14 (78 percent) maintain drivers license and 11 (61 percent) hold voter registration in their domicile. Ninety-four percent of the 18 that are subject to state tax implied they would research to determine which states have no tax or exempt military pay when the occasion arose to change domicile to a no-tax or military pay exempt state. However, less than a majority would commit to abide by the rules for changing domicile, possibly because ten (56 percent) were possibly unaware the rules and requirements are necessary.

Eleven entered the Air Force from a state that has no tax or exempts all military pay. Also 11 entered the

Air Force from a state that has income tax but have since changed to a no-tax or military pay exempt state. Ninety-one percent of the 11 that entered the Air Force from a no-tax state affirmed they would change domicile to another no-tax or military pay exempt state if their present domiciled state implemented income tax legislation. All of these 11 respondents affirmed they would research to determine which states have no tax or exempt military pay if the occasion arose as a result of tax legislation implementation in their present tax-free domicile. Except for establishing voter registration by 55 percent of the 11 respondents, the other actions would not be accomplished by the majority of these 11 individuals. The other 11 respondents that have changed their domicile from a tax state to a no-tax or military pay exempt state have generally not complied with the rules for changing domicile. Nine of the 11 did purchase property or established a mailing address through physical presence in that state from an assignment. The other rules such as voter registration, maintaining auto tags and drivers license and obtaining a legal 'will' drawn and notarized in that state had not been followed by the majority. Two respondents that had changed their domicile from a tax state to Florida, which has no state income tax, had not complied with specific Florida laws. Sixty-four percent of these 11 that have changed their domicile from a tax state to a no-tax or military pay exempt state are not sure if the rules for changing domicile should be considered and accomplished.

Seventy-three percent of the entire sample agreed they would change domicile to eliminate state tax responsibility or to reduce state income tax as their military compensation increases over their military career due to promotion or longevity. More of the higher ranking members agreed they would change domicile over the lower ranking members. The level of education appears to not have any major influence on changing domicile to eliminate responsibility or reduce state income tax. Twenty respondents (50 percent) have income greater than \$30,001. Eighty percent of these 20 agreed they would change domicile as their pay increases over their military career.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

This study examined how Air Force members understand and seek a legal domicile and to see if legal procedures in establishing domicile in no-tax or military pay exempt states were observed. The respondents gave personal information about their present state tax status. Some of the information indicates violations of state tax law and Department of Defense directives.

By completing this study, it was believed that it could be determined if, (1) Air Force members have knowledge of state income tax responsibilities when seeking a legal domicile; (2) members understand the legal methods in changing domicile to a no-tax or military pay exempt state; (3) the actions taken to change domicile are legally completed and performed, and (4) a relationship exists between changing domicile to eliminate state tax responsibility or reduce state taxes as a military members income increases due to promotion or longevity over one's career.

A review of literature was conducted by the researcher. One extensive United States Government Study provided

insight for the direction of this study. Information from the government study greatly assisted in instrumentation design.

Data was obtained through a personal interview of 40 active duty Air Force members stationed at Tinker AFB, Oklahoma. The respondents were interviewed to assess their knowledge, responsibility and attitude on state income tax matters. Additionally, the researcher attempted to determine what actions had or might occur in the future in changing domicile from a tax state to a no-tax or military pay exempt state. The researcher had no one to refuse submitting to and completing the survey. The data was analyzed using descriptive statistics including percentage, frequency and variant tables.

The major findings of this study were summarized as follows:

1. The officer respondents (75 percent) were more knowledgeable than the enlisted respondents that domicile and legal residence have the same meaning.
2. Half of the 18 individuals subject to state income tax feel they have a working knowledge of tax rates to make comparisons between states and half agreed they have a responsibility to pay tax.
3. Ninety-four percent of the 18 respondents presently subject to state income tax implied they would research to determine which states have no-tax or exempt military pay when changing domicile to a state tax-free status.
4. The actions to change domicile to a no-tax or military pay exempt state would be accomplished by less than a majority of the 18 respondents even though 67 percent agreed they would research the rules for changing domicile.
5. Ninety-one percent of 11 respondents who entered

the Air Force from a state that presently has no-tax or exempts military pay affirmed they would change domicile to another no-tax or military pay exempt state if their present no tax domicile enacted tax legislation.

6. Fifty-five percent of these 11 respondents would establish voter registration as part of the action involved in changing domicile to another no-tax or military pay exempt state; other actions would be accomplished by less than the majority of the 11.
7. Eleven respondents entered the Air Force from a tax state but have since changed to a no-tax or military pay exempt state at some point during their military career.
8. Eighty-two percent of these 11 that have changed from a tax state to a no-tax or military pay exempt state, did purchase land, a house, property, or did establish physical presence in that tax-free state as a result of assignment to a military station located within.
9. Other actions to establish domicile besides property ownership or physical presence in the tax-free state were accomplished by less than the majority of these 11 individuals.
10. Seventy-three percent of the entire sample population agreed they would change domicile to eliminate tax responsibility or reduce their state taxes as their military compensation increases over their career due to promotion or longevity.

Conclusions

Any conclusion from the data cannot extend beyond the sample. One cannot make assumptions about the entire Air Force population from any of the data collected. However, the researcher will conclude that some of the data reveals a discrepancy that a considerable amount of knowledge, understanding and responsibility on state tax matters is lacking. The researcher has also noticed this discrepancy from previous interaction when assisting and completing tax

returns for both officer and enlisted personnel. Defining that one's tax responsibility is solely based on their domicile or legal residence is part of the problem.

Unfortunately, the researcher did not investigate how home of record and home address might add confusion to the understanding of domicile or legal residence. Home of record/home address were mistakenly identified as domicile by some of the respondents during the survey interview.

The data might suggest that tax education for military members is needed. The Department of Defense has many education programs to aid the welfare of all the military services for all ranks. Bases that serve as initial entry assignments should fulfill those duties. Additionally, the researcher discovered that compliance with rules for changing domicile is not followed. Some actions are completed while many are not. The violations are most prevalent in this sample when changing domicile from a tax state to a no-tax or military pay exempt state. Proper authorities should demand credentials to verify proof that actions to establish new domicile are satisfactorily completed before allowing domicile to be changed.

The number of individuals with income over \$30,001 that indicated they would change domicile to a no-tax or military pay exempt state as their income increases can be compared with an earlier study by the Advisory Commission on Intergovernmental Relations (1976, p. 32). The commission notes "that many military personnel - particularly higher

paid personnel - perceived the tax advantages available under current state income tax laws as they apply to the military and that significant members take advantage of the opportunity to evade state income taxes through domicile selection" (1976, p. 32). The data reveals similar evidence 10 years later. The researcher finds no fault with the evidence, just the tendency that higher paid members may change their domicile to a no-tax status to avoid the state tax burden.

Recommendations

The results suggest and recommend the following:

1. Additional research be conducted by the Department of Defense sampling every armed forces member to access their knowledge of state income tax matters.
2. An education program be developed to inform all military members of their responsibility in state tax matters, the significance of domicile and how to change domicile during the inprocessing phase that military personnel accomplish upon arrival at a new duty station.
3. The Department of Defense require verification that any future actions to change domicile are completed by the individual. A voter registration card; warranty deed to property, home or land; auto registration and a notarized 'will' from the new state serve as verification credentials.
4. Legal personnel in all branches of the armed forces serve as the authority to authenticate the credentials used to change domicile rather than personnel in charge of military Accounting and Finance organizations.
5. The Department of Defense not require all members presently on active duty to prove their domicile. A retrospective request may cause undue hardship in proving one's domicile that may have been established sometime ago.

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APPENDIX

SURVEY

SURVEY_____

A SURVEY OF STATE TAX KNOWLEDGE
AND
DOMICILE OF ACTIVE DUTY AIR FORCE

FALL 1985

1. Please designate your military rank:

- E1 - E4 O1 - O3
 E5 - E9 O4 and above

2. What is your educational level?

- Some High School
 High School Graduate
 Some College but no Bachelors' Degree
 College Bachelors' Degree
 Some Advanced College but no Masters' Degree
 Masters' Degree or greater

3. Do you own property such as land, a house, mobile home or rental property?

- YES NO

4. What is your state of legal Domicile?_____

5. What state does your monthly Leave and Earning Statement indicate as your state of legal residence?_____

6. Does domicile and legal residence mean the same thing to you?

- YES NO Don't Know

7. Are state tax withholdings administered against your military pay?

- YES - answer questions 8 - 14
 NO - proceed to question 15

8. Is the state that administers withholdings on your military pay today the same state that you declared as your legal residence when you entered the Air Force? (In 1977, military members already on active duty had to declare their legal residence at that time.)

- YES NO

9. Respond accordingly to the following: I would change my domicile or legal residence only after researching the tax advantages and the rules for changing domicile.

- Strongly Agree Disagree
 Agree Strongly Disagree
 Don't Know

10. I have a working knowledge and understanding of tax rates and advantages to make comparisons between states.

- Strongly Agree Disagree
 Agree Strongly Disagree
 Don't Know

11. I feel that I have a responsibility to pay state income tax either in the state of Oklahoma or the state of my legal residence.

- Strongly Agree Disagree
 Agree Strongly Disagree
 Don't Know

12. Check as many as appropriate as it applies to you only.

- I or my spouse own property, land, a house, etc., in the state that withholds state income tax on my military pay.
 I maintain a drivers license in the state that withholds tax.
 I have voter registration in the state that withholds tax.
 I maintain auto tags in the state that withholds tax.
 I maintain a legal 'will' drawn and notarized from the state that withholds tax.

13. If you decide to change your domicile to a no-tax state or military pay exempt income tax state, which of the following would you do?

- Research to determine which states have no income tax or exempt military pay from state income tax.
 Contact a military legal officer or civilian lawyer to determine procedures involved in changing domicile.
 Purchase property, unimproved land, or a personal dwelling or establish a mailing address through physical presence in that state as a result of a PCS assignment at a military base.
 Establish voter registration in that state.
 Obtain auto tags and drivers license in that state.
 Have a legal 'will' drawn and notarized in that state.

14. Respond to the following: The requirements of establishing new domicile listed in question 13 should be considered and accomplished if changing domicile to a no-tax or military pay exempt state.

- Strongly Agree Disagree
 Agree Strongly Disagree
 Don't Know

(STOP here and proceed to question 21)

15. Is the state that you maintain your present domicile in today, the same state that you declared as your legal domicile when you entered the Air Force? (In 1977, military members already on active duty had to declare their legal domicile at that time.)

- YES - answer questions 16 & 17
 NO - Skip to question 18 and proceed

16. If for some reason your domicile state passed legislation (laws) to start collecting state income tax on your military pay, would you attempt to change domicile to another no-tax or military pay exempt state?

- YES NO

17. Which of the following would you accomplish to change domicile to another no-tax or military pay exempt state? (Check as many as you feel you would accomplish)

- Research to determine which states have no income tax or exempt military pay.
 Contact a military legal officer or civilian lawyer to determine procedures involved in changing domicile.
 Purchase property, unimproved land, or a personal dwelling or establish a mailing address through physical presence in that state as a result of a PCS assignment at a military base.
 Establish voter registration in that state.
 Obtain auto tags and drivers license in that state.
 Have a legal 'will' drawn and notarized in that state.

(STOP here and proceed to question 21)

18. When you entered the Air Force did the domicile state that you declared at that time have state income tax?

- YES - proceed to question 19
 NO - STOP here and proceed to question 21
 My state does not tax if living out of the boundaries - proceed to question 21

19. Which of the following items did you accomplish to change domicile from your income tax state to a no-tax state or military pay exempt state. (Check only the items you accomplished)

- Contact a military legal officer or civilian lawyer to determine the correct procedures involved in changing domicile.
- Purchase property, unimproved land, or a personal dwelling or established a mailing address through physical presence in that state as a result of a PCS assignment at a military base in that state.
- Establish voter registration in that state.
- Obtain auto tags and drivers license and renew these items in the domicile state at expiration time.
- Had a legal 'will' drawn and notarized in that state.
- (FLORIDA DOMICILE ONLY) Declared a one-time declaration of domicile with the clerk of the circuit court in the county that you declared as your domicile in Florida.

20. Respond to the following: The requirements of establishing new domicile listed in question 19 should be considered and accomplished if changing domicile to a no-tax or military pay exempt state.

- Strongly Agree
- Agree
- Don't Know
- Disagree
- Strongly Disagree

21. I would change my legal residence to avoid or reduce state income tax as my military pay increases during my military career.

- Strongly Agree
- Agree
- Don't Know
- Disagree
- Strongly Disagree

22. What is your annual income? (Include only your military pay, interest and dividend income, rental income, etc., that is taxable).

- less than \$10,000
- \$10,001 - \$15,000
- \$15,001 - \$20,000
- \$20,001 - \$25,000
- \$25,001 - \$30,000
- \$30,001 - \$35,000
- \$35,001 - \$40,000
- \$40,001 - \$45,000
- \$45,001 or greater

INDIVIDUAL RESULTS ARE CONFIDENTIAL, YOUR ANSWERS WILL BE CONSIDERED UNDER A GROUP ANALYSIS.

2
VITA

Kevin William Miller

Candidate for the Degree of

Master of Science

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