



# Department of Veterans Affairs

## Financial Policy

### Volume XV

#### Payroll

### Chapter 4A

#### Deductions

Approved:

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### 0401 Overview

This chapter establishes the Department of Veterans Affairs (VA) financial policies regarding deductions from salary payments. VA Handbook 5007, Part VIII, Chapter 10, *Allotments and Assignments from Pay*, provides information on allowed deductions.

The key points covered in this chapter are required and voluntary deductions available, and guidance on the order of precedence for deductions.

### 0402 Revisions

| Section  | Revision   | Office     | Reason for Change  | Effective Date |
|--|--|------------|--|----------------|
| Various  | Reformatted to new policy format and completed five-year review                                      | OFP (047G) | Reorganized chapter layout and removed procedures and appendices | March 2019     |
| Various  | Consolidated prior chapters addressing Deductions, Retirement Contributions, and Thrift Savings Plan | OFP (047G) | Consolidation of Chapters in Volume XV                           | March 2019     |
| Former Chapter Retirement Contributions Overview | Updated section to include FERS-RAE and Roth TSP.  | OFP (047G) | Legislative Changes  | October 2013   |

### 0403 Definitions

**Civil Service Retirement System (CSRS)** – The defined benefit, contributory retirement system created for Federal employees in 1920. Employees covered under CSRS are excluded from Old Age, Survivors and Disability Insurance (OASDI) taxes (i.e., social security). The Federal Government has phased out CSRS for newly hired employees. All retirement-eligible employees first hired on or after January 1, 1984 participate in FERS.

**CSRS Offset Plan** – A retirement plan for employees who were under CSRS, left retirement coverage in Federal service for more than 1 year, and were then rehired into a retirement-eligible appointment after 1983, which is past the CSRS cut-off date. The benefits under this plan are similar to CSRS benefits except the employees pay OASDI as well as a reduced CSRS contribution. Employees contribute to OASDI (up to maximum taxable wage base) and CSRS Offset retirement. The retirement contribution

increases to the full CSRS rate when wages exceed the maximum taxable OASDI wage base.

**Combined Federal Campaign (CFC)** – A charity program open to contribution from Federal employees.

**Defense Civilian Pay System (DCPS)** – Payroll processing system operated by Defense Finance and Accounting Service.

**Defense Finance and Accounting Service (DFAS)** – Entity within the Department of Defense (DoD) that provides finance and accounting services for DoD and other Federal agencies. DFAS is the payroll service provider for VA.

**Distrain** – Refers to the seizure and holding of property as security for payment of a debt or satisfaction of a claim.

**Federal Employees Retirement System (FERS)** – FERS is a three-tiered system based on OASDI (Social Security) with a defined benefit, contributory retirement benefit plan, and a Thrift Savings Plan (TSP) retirement savings program. FERS Revised Annuity Employee (FERS RAE) and FERS Further Revised Annuity Employee (FERS FRAE) are variations of the FERS retirement plan with different contribution rates.

**Federal Insurance Contributions Act (FICA)** – Law that requires, and term that describes, deductions for OASDI (social security) and Medicare (hospital insurance) taxes from employee pay and from employers under 26 U.S.C. Chapter 21.

**Flexible Spending Account (FSA)** – An account that provides potential pre-tax reimbursement for 1) child care or adult dependent care expenses (DCFSA) allowing an employee or their spouse to work, look for work or attend school full-time, or 2) health care expenses (HCFSA).

**Health Savings Account (HSA)** – An account designed to help individuals covered under a High Deductible Health Plan save for future qualified medical and health expenses on a tax-free basis. See [IRS Publication 969](#), Health Savings Accounts and Other Tax-Favored Health Plans, for additional information.

**Levy** – As used in 26 U.S.C. § 6331, the term “levy” includes the power of distraint and seizure by any means. Individuals with unpaid IRS tax bills may be subject to a continuous levy on money due them from the Federal Government. For more information see IRS guidance on tax levies in [IRS Publication 594](#), The IRS Collection Process.

**Master Record** – An individual employee record in Human Resources (HR) and payroll systems containing pay rate, leave, and other data required for payroll processing.

**Non-Appropriated Fund (NAF) Retirement** – NAF defined benefit retirement plans are managed by military service branches. Some former Department of Defense (DoD) employees who worked in military exchanges and morale, welfare and recreation programs may maintain NAF retirement plan coverage through employment in other Federal agencies instead of changing to a retirement plan managed by the Office of Personnel Management.

**Retirement Deduction** – Deduction from basic pay for CSRS under 5 U.S.C. § 8334(a), CSRS Offset under 5 U.S.C. § 8334(k), or FERS under 5 U.S.C. Chapter 84 to help fund those defined benefit programs.

**Thrift Savings Plan (TSP)** – A defined contribution retirement savings and investment plan for Federal employees.

#### **0404 Roles and Responsibilities**

**VA and DFAS** share responsibility for ensuring that each employee's record properly identifies required and voluntary deductions authorized, and the necessary information for processing those deductions. DFAS manages DCPS operations that automate pay and deduction calculation, prioritization of deductions, and payment processing.

**Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants, and other key officials** are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

The **Assistant Secretary for Human Resources and Administration** is responsible (through the Deputy Assistant Secretary for Human Resources Management) for advising Under Secretaries, Assistant Secretaries, other key officials, and field station managers and supervisors of legal and policy requirements and authorities relating to employee pay, leave, allowances, and deductions, excluding taxes.

**Chiefs, Human Resources Management Service** are responsible for providing appropriate levels of advice and assistance to employees, beneficiaries, supervisors, and fiscal/finance employees regarding laws, regulations, and policy covering HR issues, including interpretation of rules relating to hours of duty, pay, leave, and authorization of deductions from pay. HR Officers will also ensure HR data is accurate and entered timely into automated HR systems that integrate with payroll and timekeeping systems.

**DFAS** is VA's designated payroll provider. DFAS processes payroll, makes all employee deductions and disbursements, generates the Leave and Earnings Statement (LES) and W-2 files, charges VA appropriations and cost centers, and reports payroll related financial information to Treasury on behalf of VA.

The **Director, Financial Services Center (FSC)**, or designee specified in writing by name and position, is responsible for ensuring that payroll activity is generated and processed as needed, to include payroll support services.

**Employees** are responsible for providing information for allotments directed to their financial institutions including FSA and HSA providers, and other third parties, and for updating those records promptly as needed.

Employees are responsible for informing themselves regarding tax withholding requirements, and for submitting applicable tax withholding election certificates to the servicing payroll office, or updating tax withholding elections in MyPay.

**Service and Division Chiefs** are responsible for designating an adequate number of timekeepers and alternates by memorandum to the Fiscal or Finance Officer indicating names (position is not sufficient for this purpose), status (timekeeper or alternate or removal from timekeeper function), and effective date.

The **Servicing Payroll Office** trains timekeepers and supervisors on timekeeping system functions and works with timekeepers, supervisors, and other employees to resolve pay and leave discrepancies, ensures prompt adjustment processing, deduction input, and maintains accurate and secure timekeeping and payroll records.

**Supervisors** are responsible for accuracy of employee pay and leave status recorded in the time and attendance system. This includes but is not limited to:

- A. Ensuring that timekeepers are promptly notified of information needed to maintain accurate and complete time and leave records;
- B. Managing employee leave and overtime work and ensuring prompt completion of necessary supporting request and approval documentation;
- C. Ensuring that timekeepers have sufficient time for daily maintenance of T&A records, and for completing such records at the end of the pay period to ensure timesheets are certified by the deadline set by the servicing payroll office;
- D. Approving and certifying automated T&A records through electronic signature; approving and certifying paper T&A records as applicable; and
- E. Seeking HR entitlement guidance when unsure, and denying questionable transactions pending resolution of concerns.

**Timekeepers** are responsible for the preparation, maintenance, and timely submission of official T&A records and reports for each employee whose record has been assigned to their Time and Leave Unit (TL).

## 0405 Policies

Deductions from an employee's pay will be consistent with master record data entered by VA, employee self-service elections, and court or legislative requirements, subject to the order of precedence established by OPM. DFAS will pay amounts withheld to the designated recipient on behalf of VA and VA employees.

- A. Authorized deductions and changes will be entered no later than the pay period following receipt of valid documentation, subject to system limitations, unless later entry is specified.
- B. VA and DFAS will comply with regulations issued by the responsible Federal agency or entity (e.g., Social Security Administration, Thrift Investment Board, OPM, and Internal Revenue Service (IRS)) regarding deductions payable to, or as required by, those agencies. [Treasury regulations](#) direct state and local taxing authority withholding.
- C. VA and DFAS will adhere to due process notice of indebtedness procedures for billing and recovering salary overpayments in accordance with 5 U.S.C. 5514, Installment deduction for indebtedness to the United States.
- D. Service providers under OPM contract management for health insurance coverage other than the basic Federal Employee Health Benefit (FEHB) program will submit biweekly deduction requirements to DFAS for employees that enroll in benefit programs including dental, vision, and long-term care. The servicing payroll office will respond to employee inquiries about the history of transactions for these programs and FSAs; employees will be directed to the service provider for other deduction inquiries. Servicing HR staff will provide information regarding [benefits](#) offered and service provider contacts.
- E. The Veterans Canteen Service (VCS) will submit biweekly deduction elections through the Office of Information and Technology's Enterprise Operations organization to DFAS for employee-contracted installment purchases. VCS installment purchase agreements require employee agreement to offset unpaid balances from final salary payments. The servicing payroll office will respond to employee inquiries regarding the history of deductions; employees will be directed to VCS for other inquiries.
- F. DFAS will maintain an electronic record of employee elections regarding deductions through the self-service system and will maintain court-ordered and other valid involuntary offset orders and tax levy documents.
- G. The VA servicing payroll office will maintain documentation supporting employee elections for other deductions submitted to that office, except demands for involuntary salary offset from third parties, which will be forwarded promptly to designated DFAS offices.

## 040501 Required Deductions

Deductions required by laws, regulations or legal decisions include the following:

- A. **Retirement.** OPM manages CSRS, CSRS Offset, and FERS retirement plans and issues guidance for all retirement plans.
- All CSRS, CSRS Offset, and FERS employees can participate in the TSP; however, only FERS employees receive agency contributions to their TSP accounts. All employees under CSRS, CSRS Offset, and FERS contribute to Medicare.
  - DoD military service branches independently manage NAF retirement plans and NAF retirement savings plans.
  - Retirement deduction priority also applies to reemployed annuitant salary offset. See Payments Chapter 2A, Section 020502J for additional information.
- B. **Federal Insurance Contributions Act (FICA)** under 26 U.S.C. Chapter 21 (including OASDI and Medicare taxes). HR will identify employee exemption from OASDI and Medicare tax withholding requirement where applicable in establishing or editing the employee's electronic master record.
- C. **Federal income tax** under 26 U.S.C. § 3402. IRS prescribes rates and guidance related to Federal income tax withholding in IRS Circular E, Employer's Tax Guide.
- VA employees will complete IRS Form W-4, Employee's Withholding Allowance Certificate, or submit their election in the self-service system. VA will update the employee's master record in accordance with an employee election unless directed otherwise by the IRS.
  - If an employee fails to submit an IRS Form W-4, and is subject to Federal income tax, VA will enter single filing status with no withholding allowances.
  - When payroll staff are made aware that a lock-in letter (IRS demand for withholding rate) has been received from the IRS, VA servicing payroll staff will monitor Federal tax information on employee payroll records. Unauthorized changes require servicing payroll staff to restore employee withholding information as directed by IRS.
- D. **Basic FEHB** under 5 U.S.C. Chapter 89. Employees can generally waive this benefit; participation can be required to extend basic health insurance to dependents.
- E. **Basic Federal Employees Group Life Insurance (FEGLI)** under 5 U.S.C. Chapter 87- Employees can waive this benefit.

- F. **State income tax** under 5 U.S.C. § 5517; or District of Columbia Income Tax under 5 U.S.C. § 5516.
- G. **Local income or employment taxes** under 5 U.S.C. § 5520.
- H. **Garnishments** for alimony and child support under 42 U.S.C. § 659.
- I. **Federal tax levies** under 26 U.S.C. § 6331.
- J. **Other Federal debts** under 5 U.S.C. § 5514.
- K. **Commercial Debts** under 5 C.F.R. Part 582.
- L. **Bankruptcy** under 11 U.S.C., Chapter 13.

#### **040502 Voluntary Deductions and Allotments**

- A. **Health Care Flexible Spending Accounts (HCFSA)** under 26 U.S.C. § 125.
- B. **Dental and Vision** Insurance under 5 C.F.R. Part 894.
- C. **HSA** under 26 U.S.C. § 223. HSAs apply only for employees covered under a high-deductible health plan.
- D. **Optional Federal Employees Group Life Insurance (FEGLI)** under 5 U.S.C. Chapter 87.
- E. **Long Term Care** Insurance under 5 C.F.R. Part 875.
- F. **Dependent Care Flexible Spending Account (DCFSA)** under 26 U.S.C. § 129.
- G. **TSP Loan** Repayment under 5 U.S.C. § 8433(g).
- H. **TSP** under 5 U.S.C. § 8432.
  - Employees under a FERS retirement plan receive 1% of base pay credited to their TSP account as a government basic contribution. FERS employees contributing to TSP receive government matching contributions not to exceed an additional 4% of base pay in any pay period.
  - Retroactive adjustments are addressed in 5 C.F.R. Part 1605. See 5 C.F.R. § 1605.11 (c) for limits on employee makeup contribution commitments. Employee claims for correction of agency TSP error require agency reply normally within 30 days of employee claim or appeal, and employee response is due within 30 days of notice. See 5 C.F.R. § 1605.16 (d).

- I. **Post-56 Military Service Deposit** under 5 C.F.R. § 831.301. Former military service members may pay retirement contributions for eligible prior military service wages to increase civilian retirement service credit.
- J. **Labor Union Dues** under 5 U.S.C. Chapter 71.
- K. **Combined Federal Campaign** under 5 C.F.R. § 550.341.
- L. **Savings allotments** under 5 C.F.R. § 550.311(a)(5).
- M. **Other Voluntary Allotments** including those for Professional Organizations, Quarters, Subsistence, Garage, Parking, and other purposes noted in VA Handbook 5007, Part VIII, Chapter 10, subject to systems limitations.

### **040503 Order of Precedence**

OPM provides general categories for deductions in an [order of precedence](#) for use whenever an employee's gross pay is not sufficient to permit all deductions.

- A. DCPS will deduct applicable retirement contributions before any other deduction consistent with the order of precedence.
- B. If a bankruptcy court order is issued containing deduction processing requirements, DFAS will follow its specified precedence for deductions.

### **0406 Authorities and References**

[5 U.S.C. § 5514, Installment Deduction for Indebtedness to the United States](#)

[5 U.S.C. § 5516, Withholding District of Columbia Income Taxes](#)

[5 U.S.C. § 5517, Withholding State Income Taxes](#)

[5 U.S.C. § 5520, Withholding of City or County Income or Employment Taxes](#)

[5 U.S.C. Chapter 71, Labor-Management Relations](#)

[5 U.S.C. § 8334, Civil Service Retirement, Deductions, Contributions and Deposits](#)

[5 U.S.C. Chapter 84, Federal Employees' Retirement System](#)

[5 U.S.C. § 8432, Thrift Savings Plan, Contributions](#)

[5 U.S.C. § 8433\(g\), Thrift Savings Plan, Benefits and Election of Benefits](#)

[5 U.S.C. Chapter 87, Life Insurance](#)

[5 U.S.C. Chapter 89, Health Insurance](#)

[11 U.S.C. Chapter 13, Adjustments of Debts of an Individual with Regular Income](#)

[26 U.S.C. § 125, Cafeteria Plans](#)

[26 U.S.C. § 129, Dependent Care Assistance Programs](#)

[26 U.S.C. § 223, Health Savings Accounts](#)

[26 U.S.C. Chapter 21, Federal Insurance Contributions Act](#)

[26 U.S.C. § 3402, Income Tax Collected at Source](#)

[26 U.S.C. § 6331, Levy and Distraint](#)

[42 U.S.C. § 659, Consent by United States to Income Withholding, Garnishment and Similar Proceedings for Enforcement of Child Support and Alimony Obligations](#)

[5 C.F.R. § 550.311, Allotments from Federal Employees, Authority of Agency](#)

[5 C.F.R. § 550.341, Allotments from Federal Employees, Combined Federal Campaign](#)

[5 C.F.R. Part 582, Commercial Garnishment of Federal Employees' Pay](#)

[5 C.F.R. § 831.301, Retirement Credit for Military Service](#)

[5 C.F.R. Part 875, Federal Long Term Insurance Program](#)

[5 C.F.R. Part 894, Federal Employees Dental and Vision Insurance Program](#)

[5 C.F.R. Part 1605, \[TSP\] Correction of Administrative Errors](#)

[Internal Revenue Service, Publication 15, Circular E, \*Employer's Tax Guide\*](#)

[Internal Revenue Service, Publication 594, \*The IRS Collection Process\*](#)

[Internal Revenue Service Publication 969, \*Health Savings Accounts and Other Tax-Favored Health Plans\*](#)

[OFP Publications Library](#)

[OPM Memorandum PPM-2008-01: Order Of Precedence When Gross Pay Is Not Sufficient To Permit All Deductions](#)

[Treasury Direct](#)

[VA HR Directives and Handbooks \(VA intranet access only\)](#)

[VA Publications and VA Forms \(VA intranet access only\)](#)

#### **0407 Rescissions**

None.

#### **0408 Questions**

Questions concerning these financial policies and procedures should be directed to the specific POC's and formatted as follows using the group email. Do not use proper names.

|            |                                       |
|------------|---------------------------------------|
| VHA        | VHA 10A3A Accounting Policy (Outlook) |
| VHA        | VAFSC Nationwide Accounting (Outlook) |
| VBA        | VAVBAWAS/CO/FINREP (Outlook)          |
| VBA        | VAVBAWAS/CO/OPERATIONS (Outlook)      |
| NCA        | NCA Financial Policy Group (Outlook)  |
| All Others | OFP Accounting Policy (Outlook)       |