

**SUMMARY OF MAJOR CHANGES TO  
DOD 7000.14-R, VOLUME 13, CHAPTER 8  
“PAYROLL”**

All changes are denoted by blue font

Substantive revisions are denoted by a ★ preceding the section,  
paragraph, table, or figure that includes the revision

Hyperlinks are denoted by *underlined, bold, italic, blue font*

<b>PARA</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Reworded and reformatted chapter for clarity. Revised and added references. Added electronic links.	Addition/ Revision
0801	Added an Overview section to provide purpose and scope, and renumbered paragraphs.	Addition
0802	Added section on Payroll Management, which includes provisions for compensatory time.	Addition
0803	Added section on Classification, Pay, and Allowances.	Addition
0804	Added section on Basic and Premium Pay.	Addition
0805	Added section on Tips and Service Charges.	Addition
0806	Added section on Allowances and Other Special Entitlements. Deleted Dual Compensation repealed by Public Law 106-65, section 651.	Addition/ Deletion
0807	Added section on Payroll Deductions, which includes salary offset.	Addition
080801	Added accounting requirements for portability of leave.	Addition
0809	Added section on Payroll Disbursements.	Addition
0810	Added section on Severance and Separation Benefits.	Addition

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## CHAPTER 8

PAYROLL★0801 OVERVIEW

080101. Purpose. This chapter provides the standard Nonappropriated Fund (NAF) policies for NAF payroll.

080102. Scope. Policies in this chapter apply to all Nonappropriated Fund Instrumentalities (NAFIs), NAF payroll offices, and their supporting accounting offices (AOs) except the Armed Service Exchanges.

★0802 PAYROLL MANAGEMENT

The Civilian Personnel Management Service (CPMS) Nonappropriated Fund (NAF) Personnel Policy Division is responsible for developing, coordinating, and publishing Department of Defense (DoD) wide civilian human resource (HR) policy concerning DoD NAF employees. These employees are not paid from funds appropriated by Congress but from funds generated by NAFIs. NAF employees are Federal employees but they are not covered by most laws administered by the Office of Personnel Management, unless specifically provided by statute (e.g., statutes cover NAF employees in areas such as wage-grade pay and labor relations). CPMS policies must meet employment laws, be equitable, and respond to the needs of NAF business operations. They cover staffing, workforce relations, pay, classification, leave, and employee benefits. CPMS is also responsible for implementing the DoD Employee Benefit Portability Act and the congressional mandate for a single, uniform health benefits program for NAF employees. The office serves as DoD's primary point of contact for NAF HR issues and provides advisory services to officials within, and outside of, DoD. The NAF Personnel Policy Division accomplishes these tasks in close cooperation with its counterparts in the Office of the Secretary of Defense, Military Department headquarters, and MWR communities.

080201. Payroll Objectives. All NAF payroll systems that are being designed and implemented, or are in use, must operate in accordance with laws, regulations, and judicial decisions. It is the responsibility of each NAFI to be knowledgeable of the legal requirements governing its payroll operations. All payroll systems must provide, at a minimum, the following qualities:

- A. complete, accurate, and prompt processing and accounting for pay, leave, and deductions
- B. complete, accurate, and prompt generation and maintenance of payroll records and transactions
- C. timely access to complete and accurate information to those internal and external to the NAFI who require the information

- D. timely and proper interaction of payroll systems with the core financial systems
- E. adequate internal controls, to ensure that payroll systems are operating as intended.

080202. Payroll Office Responsibilities. The NAF payroll office has primary responsibility for all payroll processing and must work closely with the supporting NAF personnel office, NAFIs, and NAF employees to ensure:

- A. Accurate records are maintained to satisfy employee needs, NAFI accounting requirements, and compliance with federal, state, and local statutory requirements.
- B. Adequate controls are in place to ensure safekeeping of pay information.
- C. All documents received affecting pay are promptly processed in accordance with established schedules.
- D. Contact is made with the submitting office or employee to obtain the information necessary to correct errors detected.
- E. Timely disbursement of employees' pay and supplemental payments when required.
- F. Documentation is provided to NAF personnel office to support retirement actions.
- G. Tax reports are submitted to federal, state, and local authorities.

080203. Accounting Office Responsibilities. AOs must ensure all payroll information including accrued payroll and benefits passed to the accounting system, whether systemic or manual, updates the appropriate general ledger accounts and meets reporting requirements in DoD Instruction (DoDI) 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources," and Chapter 7 and Chapter 9 of this volume.

080204. Nonappropriated Fund Instrumentalities Responsibilities. NAFIs will establish the administrative workweek, basic workweek, workday, meal periods, legal holidays, administrative leave, flexible and compressed work schedules, and compensatory time off for religious observances, and volunteer activities in accordance with DoD 1400.25-M, "Civilian Personnel Manual (CPM)," Chapter 1400. In addition, compensatory time off may be granted to NAF employees, if requested, instead of overtime pay for overtime work in accordance with Title 5, United States Code (U.S.C.), section 5543.

080205. Leave. DoD 1400.25-M, Chapter 1400 states that the leave year for a NAF employee is a 52-week period prescribed by the Heads of the DoD Components, or their

designees, for administering leave. DoD 1400.25-M, Chapter 1400 also provides specific policy regarding eligibility, restrictions, rate of accrual, use, and entitlement to the various types of leave available to NAF employees (e.g., annual, sick, home, military, and court).

A. Annual Leave. The accrual of annual leave is material and must be recognized as a liability and expense monthly in the individual NAFIs accounting records. The individual leave records or annual leave report, showing the accumulated leave balance for all employees, will be used as the subsidiary to the appropriate general ledger account for each NAFI.

B. Sick Leave. The monthly accrual of sick leave is not a liability to the NAFI. Sick leave used monthly will be recognized as an expense in the individual NAFIs accounting records.

C. NAFI to NAFI Leave Transfer. When a NAF employee transfers from one NAFI to another, the accrued annual leave hours and dollar amount may be transferred to the gaining NAFI, if both employers and employee agree. If the employee elects not to have the annual leave transferred to the gaining NAFI, then the losing NAFI will make a lump sum leave payment to the employee. Accrued sick leave hours will transfer to the gaining NAFI with no exchange of funds. See DoD 1400.25-M, Chapter 1400 for additional guidance.

080206. Records Retention and Storage. NAF payroll offices are required to keep records sufficient to support all transactions relevant to matters concerning NAF payroll. In accordance with Internal Revenue Service (IRS) Publication 15, (Circular E), Employer's Tax Guide, records of employment taxes shall be maintained for a period of 4 years following the due date of such tax or from the date for which such tax has been paid, whichever date is later. Documentation on pay, leave, and allowances shall be stored and transferred to the National Personnel Records Center, St. Louis, MO, for 56 years retention in accordance with the National Archives and Records Administration General Records Schedules.

#### ★0803 CLASSIFICATION, PAY, AND ALLOWANCES

NAFIs shall ensure that each position is assigned to its proper occupational category, title, code, and grade or pay band level, consistent with the duties and responsibilities of the position, and application of proper job-grading standards. For further information, refer to DoD 1400.25-M, Chapter 1400.

#### ★0804 BASIC AND PREMIUM PAY

Pay schedules for NAF wage employees are established by the head of the designated lead agency in each NAF wage area. DoD 1400.25-M, Chapter 1400 and the Federal Wage System - Nonappropriated Fund Operating Manual provide instructions governing the application of rates of basic pay and premium pay to individual NAF employees.

★0805 TIPS AND SERVICE CHARGES

NAF employees may receive cash or charge (e.g., customer adds to a credit card sales ticket) tips from customers which are not negotiated by the NAFI. Charge tips may be immediately paid to the employee or recorded as a liability in the accounting records to be paid to the employee during payroll processing. NAF employees must report tips received, whether cash or charge, which exceed \$20 in a month on IRS Form 4070, Employee's Report of Tips to Employer, or a similar report, to the NAFI by the 10th day after the month that the tips are received. NAFIs may at their discretion distribute service charges (amount added to a customer's ticket) to employees. Service charges distributed to employees are treated as wages and are not required to be included as tips on IRS Form 4070. For further information on tip reporting, refer to IRS Publication 15, (Circular E), Employer's Tax Guide.

★0806 ALLOWANCES AND OTHER SPECIAL ENTITLEMENTS

DoD 1400.25-M, Chapter 1400 covers allowances and other special entitlements for NAF employees. The payment of allowances and differentials to NAF employees in overseas and foreign areas shall comply with DoD 1400.25-M, "Overseas Allowances and Differentials," Chapter 1200. The delegation of authority restrictions provided in that chapter applies to NAF.

★0807 PAYROLL DEDUCTIONS

Payroll deductions or withholdings made from an employee's pay must be properly authorized by the employee (or in accordance with applicable laws), adequately documented, and paid when due to the appropriate recipient in the amount authorized.

080701. Taxes. The collection of taxes represents liabilities that are settled when funds are remitted to the designated authorities. Refer to IRS Publication 15 (Circular E), Employer's Tax Guide and Publication 15-A, Employer's Supplemental Tax Guide for information on employer identification number, tax withholding, depositing, and reporting.

A. Common Law Rules. An employer must generally withhold Federal income taxes, withhold and pay Social Security and Medicare taxes, and pay unemployment tax on wages paid to an employee. An employer does not generally have to withhold or pay taxes on payments to independent contractors. To determine whether an individual is an employee or an independent contractor under common law, the relationship of the worker and the business must be examined. IRS Publication 15-A provides the guidelines for determining whether an individual is an employee under the common law rules. These rules assist in identifying whether sufficient control is present to establish an employer-employee relationship.

B. Withholding State and Local Income Taxes. The payroll office will withhold taxes from the wages of civilian employees for, and remit them to, tax jurisdictions wherever the Federal Government has entered into agreements for withholding taxes. State and local taxes shall be withheld from the pay of enlisted personnel compensated from NAF for work performed during off-duty hours.

C. Foreign Taxes. NAFIs located in foreign countries will not pay to nor collect for any foreign country or political subdivision any tax unless the United States has consented to levy collection by treaty, convention, or Executive agreement.

D. Federal Insurance Contributions Act (FICA). The payroll office will withhold a set percentage of an employee's salary each pay period. FICA also requires that the NAFI match the employee's amount and contribute the money to a Government account known as the Social Security Trust Fund.

080702. Other Deductions. If an eligible NAF employee elects to participate in other NAF benefits programs (to include retirement, group life, medical, dental, and 401(k) savings plan benefits), then deductions will be made as applicable. Employee-elected deductions may also be made for U.S. Savings Bonds, contributions to the Combined Federal Campaign, union dues (as applicable), and allotments to financial institutions, such as credit unions, banks, or other savings institutions. Also, in accordance with the 2008 National Defense Authorization Act (NDAA), section 652, NAF employees are subject to installment deductions from pay to collect debts for Federal agencies.

080703. Garnishment of Wages. NAF employees are subject to court-ordered garnishment of wages for alimony, child support, bankruptcy, commercial debts, and federal tax levies. Refer to DoD 1400.25-M, Chapter 1400 for further information on priority of deductions and specific rules applicable to court ordered garnishments.

080704. Erroneous Overpayments. In accordance with Title 5, United States Code (U.S.C.), section 5514, Installment Deduction for Indebtedness to the United States, NAFI employees are subject to salary offset for collection of debts in the same manner as military members and DoD civilian employees. All NAF employees are subject to salary offset for collection of debts owed to NAFIs or appropriated fund activities. NAF payroll offices shall ensure procedures are developed to comply with the requirements of 5 U.S.C 5514. Also, NAF payroll offices shall refer to Volume 8, Chapter 8 and Volume 5, Chapter 30 of this Regulation and use the applicable guidance in developing indebtedness and debt collection procedures for NAFIs.

080705. Order of Precedence for Deductions. If the gross salary of an employee is not sufficient to permit all deductions to be made, then deductions will be made in the following order of precedence in accordance with Treasury Financial Manual (TFM), Volume I, Part III, Chapter 7000, section 7025.

- A. Retirement and Medicare or FICA
- B. Federal income taxes
- C. Health benefits
- D. Group life insurance basic
- E. State income taxes

- F. Local income taxes
- G. Indebtedness due the United States Government
- H. Court-ordered garnishments for alimony and child support payments
- I. Commercial garnishments
- J. Voluntary alimony or child support payments
- K. Court-ordered bankruptcy payments
- L. Optional life insurance
- M. Voluntary repayments of indebtedness to the United States
- N. Other voluntary deductions.

#### 0808 EMPLOYEE BENEFIT PORTABILITY PROGRAM

The Portability of Benefits for NAF Employees Act (Public Law 101-508, section 7202) was enacted in 1990 to provide portability of pay and benefits for employees moving between NAF and appropriated fund (APF) positions. Under the Portability Act, employees who move with a break in service of no more than three days between DoD NAF and DoD APF positions may be eligible for pay, leave, reduction-in-force, and retirement benefit protection. Under current retirement portability law, eligible employees who move with a break in service of no more than one year may elect to continue retirement coverage after moving between NAF and APF positions. Refer to the *Portability Handbook, "Portability of Benefits for Moves Between Civil Service and Nonappropriated Fund Employment Systems Reference Guide,"* for additional guidance and procedures.

★080801. Leave Transfer. In accordance with instructions in the Portability of Benefits for NAF Employees Act, accrued annual and sick leave hours will transfer to the gaining activity without exchange of funds. Employees are not entitled to receive lump sum payment for accumulated/accrued annual leave.

A. NAF to APF Transfer. When a NAF employee transfers, the AO will record the total dollar amount of accumulated/accrued annual leave to the appropriate NAFIs general ledger accounts. No accounting entry is required for the accrued sick leave balance.

B. APF to NAF Transfer. When an APF employee transfers, the AO will record the total dollar amount of accumulated/accrued annual leave to the appropriate NAFIs general ledger accounts. No accounting entry is required for the accrued sick leave hours. The employee's leave record will be annotated with the balance of hours transferred for both annual and sick leave.

080802. Portability Retirement Records. NAF payroll offices are responsible for providing and processing forms for employees who are retiring under either Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS). The payroll offices must fulfill the following general responsibilities relating to CSRS or FERS. For specific instructions and procedures for preparing, maintaining, and routing records of separated employees, NAF payroll offices shall contact CPMS, NAF Personnel Policy Division.

A. Prepare and maintain an SF 2806/SF 3100, “Individual Retirement Record,” for each employee subject to either CSRS or FERS. Each SF 2806/SF 3100 must be correct, complete, clear in every detail, and properly certified to ensure timely and accurate closeout procedures when an employee is separated or transferred to the paying jurisdiction of another agency.

B. Maintain adequate control over retirement records and associated monetary balances.

C. Promptly send claims and records to the Office of Personnel Management (OPM). OPM requires all Federal agencies to get at least 80 percent of all claims for benefits to OPM within 30 days of the retirement or separation date.

D. Withhold retirement deductions from employees' salaries, make agency contributions, and send these to OPM for deposit. Deductions begin on the day employee acquires coverage under the retirement system and must be prorated for partial pay periods.

#### ★0809 PAYROLL DISBURSEMENTS

All payroll disbursements shall be paid to NAF employees by electronic fund transfer (EFT) unless the head of the agency or designee has granted a waiver. The head of the agency or designee may waive the EFT requirement upon receipt of written certification from the employee which states that they do not have an account with a financial institution or for some other extenuating circumstances.

#### ★0810 SEVERANCE AND SEPARATION BENEFITS

DoDI 1015.15 states that NAFIs shall set aside and invest funds on a regular basis to ensure sufficient cash availability to defray payment of severance benefits for U.S. and Foreign National employees. NAFIs will ensure that the estimated liability for a business-based action is accrued when probable and a separation allowance is accrued on a monthly basis for the period of employment for all NAF employees. DoD 1400.25-M, Appendix 5 of Subchapter 1405 describes the eligibility criteria, exclusions, and conditions under which NAF employees may receive severance pay and the computation and payment requirements.

#### 0811 INTERNAL CONTROL STANDARDS

A key to effective payroll operations is the maintenance of internal controls over those operations. Internal control standards are outlined in Chapter 9 of this volume. All DoD NAF

organizations must ensure that these standards are followed relating to the organization of payroll operations as well as to the methods and procedures adopted for processing and auditing payrolls.