



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

6.550.3

MARCH 29, 2022

EFFECTIVE DATE

(03-29-2022)

PURPOSE

- (1) This transmits new IRM 6.550.3, Severance Pay

MATERIAL CHANGES

- (1) Severance pay has been relocated to this IRM from IRM 6.550.1, Pay Administration (General).
- (2) This new IRM incorporates a Program Scope and Objectives subsection as required by IRM 1.11.2, Internal Management Documents (IMD) System, Internal Revenue Manual (IRM) Process.
- (3) IRM 6.550.3.1.6(1) updates definition to match updated commuting area document
- (4) IRM 6.550.3.2(2) adds intermittent work schedule and appointments terminated within one year of appointment to when an employee is not eligible for severance pay.
- (5) IRM 6.550.3.3(2) clarifies there is no age adjustment for employees under the age of 40.
- (6) IRM 6.550.3.5(5) provides the computation for seasonal employees.
- (7) Exhibit 6.550.3-1 adds severance pay computation examples.

EFFECT ON OTHER DOCUMENTS

IRM section 6.550.1.4, Severance Pay, dated October 18, 2019, is superseded.

AUDIENCE

All business units

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Human Capital Officer

6.550.3
Severance Pay

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6.550.3.1
(03-29-2022)
Program Scope and Objectives

- (1) **Purpose:** This IRM provides Servicewide policy, standards, requirements, and guidance relating to the administration of severance pay.
- (2) **Audience:** Unless otherwise indicated, the policies, authorities, procedures, and instructions contained in this IRM apply to all business units. Bargaining Unit (BU) employees should review negotiated agreement provisions under Article 19 Reduction in Force and Mitigation Strategies, Section 5-C3, relating to subjects in this IRM. Should any of these instructions conflict with a provision in the negotiated agreement, the agreement will prevail.
- (3) **Policy Owner:** The IRS Human Capital Officer
- (4) **Program Owner:** The Human Capital Office (HCO), Office of Human Resource Strategy (OHRS), Policy and Audit (P&A).
- (5) **Primary Stakeholders:** The HCO, Office of Human Resource Operations (OHRO), Talent Acquisition (TA), Program Execution Office (PEO).

6.550.3.1.1
(03-29-2022)
Background

- (1) IRM 6.550.3, Severance Pay, replaces guidance previously contained in IRM 6.550.1.4, Severance Pay.
- (2) This guidance is to be read and implemented in accordance with pertinent law and government regulation authorizing severance pay for employees who are involuntarily separated from federal service and who meet other conditions of eligibility.

6.550.3.1.2
(03-29-2022)
Authority

- (1) **Law:** Title 5, United States Code (USC) Section 5595, Severance Pay at <http://uscode.house.gov/browse.xhtml>.
- (2) **Regulation:** Title 5, Code of Federal Regulations (CFR), Part 550, Subpart G, Severance Pay at <https://www.ecfr.gov/current/title-5/chapter-I/subchapter-B>.

6.550.3.1.3
(03-29-2022)
Roles and Responsibilities

- (1) The IRS Human Capital Officer is the executive responsible for this IRM and overall Servicewide policy for severance pay.
- (2) The HCO, OHRS, P&A organization is responsible for developing, maintaining and publishing content in this IRM.
- (3) The HCO, TA, PEO is responsible for implementing Severance Pay during a Reduction-in-Force initiative.
- (4) The HCO, OHRO, HR Shared Services (HRSS) is responsible for administering the payment of severance pay.

6.550.3.1.4
(03-29-2022)
Program Management and Review

- (1) This IRM provides policy guidance on severance pay for the IRS. The P&A Office gauges the effectiveness of severance pay policy based on feedback from customers and program owners. During review and publishing of this IRM, sections are revised, added or deleted based in part on this process.

6.550.3.1.5
(03-29-2022)
Program Controls

- (1) The P&A Office in collaboration with PEO, develops policies, materials and programs to increase Servicewide awareness and understanding of severance pay. Additionally, P&A collaborates with other HCO organizations and Servicewide stakeholders to support education and outreach activities as they relate to severance pay.

6.550.3.1.6
(03-29-2022)
Definitions

- (1) **Commuting area:** the geographic area that usually constitutes one area for employment purposes, as determined by the agency. It includes any population center (or two or more neighboring ones) and the surrounding localities in which people live and can reasonably be expected to travel back and forth daily to their usual employment. The IRS Commuting Area Document can be found at <http://hco.web.irs.gov/WorkTran/pdf/CommutingAreaDocument.pdf>
- (2) **Immediate annuity:**
 - a. A recurring benefit payable under a retirement system applicable to Federal civilian employees that the individual is eligible to receive (disregarding any offset described in IRM 6.550.3.2(3)(f)) at the time of the involuntary separation from civilian service or that begins to accrue within one month after such separation, excluding any Social Security retirement benefit; or
 - b. A benefit that meets the conditions in paragraph (a) of this definition, except that the benefit begins to accrue more than one month after separation solely because the employee elected a later commencing date (such as allowed under 5 CFR 842.204).
- (3) **Involuntary separation:** a separation initiated by an agency against the employee's will and without consent for reasons other than inefficiency, including a separation resulting from the expiration of a time-limited appointment effected within three calendar days after separation from a qualifying appointment. An employee who is removed for failure to accept a directed reassignment outside the commuting area (if there is no mobility agreement) is considered to have been involuntarily separated and is therefore eligible for severance pay. (See 5 CFR 550.703 for full definition.)
- (4) **Nonqualifying appointment:** an appointment that does not meet eligibility for severance pay, including:
 - a. An appointment at a noncovered agency
 - b. An appointment when the employee is on an intermittent work schedule;
 - c. A Presidential appointment;
 - d. An emergency appointment;
 - e. An excepted appointment under schedule C; a noncareer appointment in the Senior Executive Service; or an equivalent appointment made for similar purposes; and
 - f. A time-limited appointment (except for a time-limited appointment that is qualifying because it is made effective within three (3) calendar days after separation from a qualifying appointment), including:
 - A term appointment;
 - An overseas limited appointment with a time limitation;
 - A limited term or limited emergency appointment in the Senior Executive Service, or an equivalent appointment made for similar purposes;
 - A Veterans Recruitment Appointment under 5 CFR Part 307; and
 - A Presidential Management Fellows Program appointment under 5 CFR Part 213, Schedule D.
- (5) **Qualifying appointment:**
 - a. A career or career-conditional appointment in the competitive service or the equivalent in the excepted service;
 - b. A career appointment in the Senior Executive Service;

- c. An excepted appointment without time limitation, except under Schedule C or an equivalent appointment made for similar purposes;
 - d. An overseas limited appointment without time limitation;
 - e. A status quo appointment, including one that becomes indefinite when the employee is promoted, demoted, or reassigned;
 - f. A time-limited appointment in the Foreign Service, when the employee was assigned under a statutory authority that carried entitlement to reemployment in the same agency, but this right of reemployment has expired; and
 - g. A time-limited appointment (including a series of time-limited appointments by the same agency without any intervening break in service) for full-time employment that takes effect within three calendar days after the end of one of the qualifying appointments listed in paragraphs (a) through (f) of this definition, provided the time-limited appointment is not non-qualifying on grounds other than the time-limited nature of the appointment.
- (6) **Reasonable offer:** the offer of a position which meets all the following conditions:
- a. The offer is in writing;
 - b. The employee is qualified for the position offered; and
 - c. The position offered is:
 - In the employee's agency, including an agency to which the employee is transferred with their function in a transfer of functions between agencies;
 - Within the employee's commuting area (unless geographic mobility is a condition of employment);
 - Of equal or greater tenure;
 - The same work schedule (part-time or full-time); and
 - Not lower than two grade or pay levels below the employee's current grade or pay level, without consideration of grade/band or pay retention under IRM 6.536.1, Grade/Band and Pay Retention. When the offered position is in a different pay system, the comparison rate of the new position may not be lower than the comparison rate of a grade or pay level two grades or levels below the employee's current position on the same pay schedule as the current position. For IRS payband positions, the term "band" has the same meaning as "grade", however, a position one band below the employee's current band level is considered a reasonable offer when that next lower band comprises two or more grades (see OPM Criteria for IRS Broadbanding System, Section V(G)(3) at <http://hco.web.irs.gov/compbenefits/pdf/OPMIRSCriteria.pdf>).

6.550.3.1.7
(03-29-2022)
Related Resources

- (1) Office of Personnel Management (OPM) Pay & Leave Fact Sheets at: <https://www.opm.gov/policy-data-oversight/pay-leave/pay-administration/#url=Fact-Sheets>
- (2) Reduction in force (RIF) and workforce restructuring at: <https://irsource.web.irs.gov/Lists/Career%20Opportunities/DispltemForm.aspx?ID=52>
- (3) The IRS Commuting Area Document at: <http://hco.web.irs.gov/WorkTran/pdf/CommutingAreaDocument.pdf>
- (4) OPM Criteria for IRS Broadbanding System, Section V(G)(3)) at: <http://hco.web.irs.gov/compbenefits/pdf/OPMIRSCriteria.pdf>

6.550.3.2
(03-29-2022)

Eligibility for Severance Pay

- (1) Except for the exclusions stated in 5 USC 5595(a)(2)(B)(i) through (x), this policy applies to each full-time or part-time IRS employee with a regularly scheduled tour of duty, who is serving under a qualifying appointment.
- (2) To be eligible for severance pay, an employee must:
 - a. Be serving under a qualifying appointment;
 - b. Have completed at least 12 months of continuous service as described in IRM 6.550.3.2.1 below; and
 - c. Be removed from federal service by involuntary separation.
- (3) An employee is not eligible for severance pay if they:
 - a. Are serving under a non-qualifying appointment;
 - b. Are on an intermittent work schedule;
 - c. Decline a reasonable offer of assignment to another position;
 - d. Are serving under a qualifying appointment in an agency scheduled by law or Executive order to be terminated within one year after the date of the appointment, unless on the date of separation, the agency's termination has been postponed to a date more than one year after the date of the appointment, or the appointment is effected within three calendar days after separation from a qualifying appointment;
 - e. Are receiving injury compensation under 5 USC chapter 81, subchapter I (e.g., for total temporary or permanent disability per 20 CFR 10.421(c)), unless the injury compensation is already being received concurrently with pay or is the result of someone's death; or
 - f. Are eligible upon separation for an immediate annuity from a federal civilian retirement system or from the uniformed services. An employee is ineligible even if all or part of the annuity is offset by payments from a non-Federal retirement system the employee elected instead of Federal civilian retirement benefits.

6.550.3.2.1
(03-29-2022)

Severance Pay - Requirements for 12 Months of Continuous Employment

- (1) The requirement for 12 months of continuous employment is met if, on the date of separation, an employee has held one or more civilian federal positions over a period of 12 months without a single break in service of more than three calendar days. In addition, the position(s) held must have been under:
 - a. One or more qualifying appointments; or
 - b. One or more non-qualifying temporary appointments that precede the current qualifying appointment.
- (2) When a break in service covered by severance pay interrupts otherwise continuous federal employment, the entire period is considered continuous service.
- (3) A period during which an employee receives continuation of pay or compensation for an injury on the job under 5 USC chapter 81 is considered continuous federal service.

6.550.3.2.2
(03-29-2022)

Severance Pay - Criteria for Involuntary Separation

- (1) An employee, who resigns expecting to be involuntarily separated, is considered to have been involuntarily separated if they resign after receiving:
 - a. Specific written notice, to include a notice of proposed removal, that they will be involuntarily separated (not for unacceptable performance or conduct) by a particular action effective on a particular date; or

- b. A general written notice of reduction in force or transfer of functions which:
 - Is issued by a properly authorized agency official;
 - Announces that the agency has decided to abolish, or transfer to another commuting area, all positions in the competitive area by a particular date (no more than one year after the date of the notice); and
 - States that, for all employees in that competitive area, a resignation following receipt of the notice is an involuntary separation.
- (2) Except for resignations under the conditions described in (1) above, all resignations are voluntary separations and do not provide entitlement to severance pay.
- (3) A resignation is not considered an involuntary separation if the specific or general written notice is canceled before the actual separation (based on that resignation) takes effect.

6.550.3.3
(03-29-2022)
**Computation of
Severance Pay Fund**

- (1) The basic severance pay fund and allowance will be computed following 5 CFR 550.707(a) and (b) (See Exhibits 6.550.3-1 through 6.550.3-3).
- (2) **Age adjustment allowance.** The basic severance pay allowance is increased by an age adjustment allowance consisting of 2.5 percent of the basic severance pay allowance for each full three months of age over 40 years. There is no age adjustment for employees under the age of 40.
- (3) **Lifetime limitation.** The severance pay fund is limited to that amount which would provide 52 weeks of severance pay (taking into account weeks of severance pay previously received, as provided in 5 CFR 550.712).

6.550.3.4
(03-29-2022)
**Severance Pay -
Creditable Service**

- (1) The following service is creditable for computing an employee's severance pay:
 - a. Civilian service as an employee (as defined in 5 USC 2105), excluding time during a period of nonpay status that is not creditable for annual leave accrual purposes under 5 USC 6303(a);
 - b. Service performed with the U.S. Postal Service or the Postal Rate Commission;
 - c. Military service, including active or inactive training with the National Guard, when performed by an employee who returns to civilian service through the exercise of a restoration right provided by law, executive order, or regulation; and
 - d. Service performed with the Government of the District of Columbia by an individual first employed by that government before October 1, 1987, excluding service as a teacher or librarian of the public schools of the District of Columbia.

6.550.3.5
(03-29-2022)
**Accrual and Payment of
Severance Pay**

- (1) Severance pay accrues and is paid on a day-to-day basis following separation from federal employment. If severance pay begins in the middle of a pay period, one day of severance pay accrues for each workday or applicable holiday left in the pay period at the same rate at which basic pay would have accrued if the recipient were still employed.

- (2) Severance payments are made at the same pay period intervals that salary payments would be made if the recipient were still employed.
- (3) When an individual receives severance pay as the result of an involuntary separation from a qualifying time-limited appointment, the severance payment is based on the rate of basic pay received at the time of that separation.
- (4) When an individual is in a nonpay status immediately before separation, the amount of the severance payment is determined using the basic pay that they would have received if they had been in a pay status at the time of separation.
- (5) Severance pay for seasonal employees is computed according to the procedure described in 5 CFR 550.707(b)(4). Compute the weekly average of hours in a pay status (excluding overtime hours) and multiply that average by the hourly rate of basic pay in effect at separation.

6.550.3.6
(03-29-2022)
**Suspension of
Severance Pay**

- (1) Severance pay is suspended if an individual entitled to severance pay is employed by the Government of the United States or the government of the District of Columbia under a non-qualifying, time-limited appointment. Severance pay is suspended for the life of the appointment. Severance pay resumes, without any re-computation, when the employee separates from the non-qualifying, time-limited appointment. The resumed severance payments are the responsibility of the agency that originally triggered the individual's severance pay entitlement by separating the individual while serving under a qualifying appointment.

6.550.3.7
(03-29-2022)
**Termination of
Severance Pay
Entitlement**

- (1) Entitlement to severance pay ends when:
 - a. The individual entitled to severance pay is employed by the Government of the United States or the government of the District of Columbia, unless employed under a non-qualifying, time-limited appointment as described in IRM 6.550.3.6 above; or
 - b. The severance pay fund is exhausted.

6.550.3.8
(03-29-2022)
**Severance Pay -
Reemployment and
Re-credit of Service**

- (1) When a former employee is reemployed, the IRS must record the number of weeks of severance pay received (including partial weeks) on the appointment document.
- (2) If an employee again becomes entitled to severance pay, the severance pay allowance must be recalculated on the basis of all creditable service and current age, deducting the number of weeks for which severance pay was previously received.

6.550.3.9
(03-29-2022)
Severance Pay Records

- (1) The National Finance Center (NFC) payroll system, Treasury Integrated Management Information System (TIMIS), provides data on severance payments for the preceding 26 pay periods.

Exhibit 6.550.3-1 (03-29-2022)**Severance Pay Computation Example - Permanent**

Full-time employee, age 45 with 22 years of creditable civilian service, earning \$41,600 annually (weekly salary = \$800)

- Basic Severance Allowance (BSA)

\$800 x 10 years	\$8,000
\$1,600 x 12 years	\$19,200
Total BSA	\$27,200

- Age Adjustment Allowance

\$27,200 X 10%	\$2,720
\$2,720 X 5 years	\$13,600

Total severance pay computation = \$40,800

Exhibit 6.550.3-2 (03-29-2022)**Severance Pay Computation Example - Permanent Part-Time**

Part-time employee, age 46 with 12 years of creditable civilian service, earning \$34,426 annually (weekly salary = \$330)

- Basic Severance Allowance (BSA) - Bi-weekly duty hours for part-time employee = 40 hours (20 hours per week); [$\$34,426 \div 2087 = \16.50 per hour; $\$16.50$ hourly rate x 20 hours = **\$330** weekly salary]

\$330 x 10 years	\$3,300
\$660 x 2 years	\$1,320
Total BSA	\$4,620

- Age Adjustment Allowance

\$4,620 x 10%	\$462
\$462 x 6 years	\$2,772

Total severance pay computation = \$7,392

Exhibit 6.550.3-3 (03-29-2022)**Severance Pay Computation Example - Seasonal Full-Time**

Full-time seasonal employee, age 45 with 14 years of creditable civilian service, earning \$40,480 annually (weekly salary = \$349.20)

Pay Period	Creditable Hours
03	00
04	40
05	72
06	80
07	80
08	64
09	72
10	80
11	64
12	80
13	64
14	72
15	80
16	72
17	00

Average total hours in pay status for the past 52 weeks = 920

[Average hours worked over the past 52 weeks = 17.69 (rounded to 18)]

\$19.40 hourly rate x 18 hours = **\$349.20** weekly salary

- Basic Severance Allowance (BSA)

\$349.20 x 10 years	\$3,492.00
\$698.40 x 4 years	\$2,793.60
Total BSA	\$6,285.60

- Age Adjustment Allowance

\$6,285.60 x 10%	\$628.56
\$628.56 x 5 years	\$3,142.80

Total severance pay computation = \$9,428.40

