Railroad Retirement Information

U. S. Railroad Retirement Board

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For Publication January 2005

Federal Income Tax and Railroad Retirement Benefits

The following questions and answers describe the tax statements issued by the Railroad Retirement Board (RRB) each January for Federal income tax purposes. Railroad retirement beneficiaries needing information about these statements, or tax withholding from their benefits, should contact the nearest office of the RRB. For further Federal income tax information, railroad retirement beneficiaries should contact the nearest office of the Internal Revenue Service.

1. How are the annuities paid under the Railroad Retirement Act treated under the Federal income tax laws?

A railroad retirement annuity is a single payment comprised of one or more of the following components, depending on the annuitant's age, the type of annuity being paid, and other factors: a Social Security Equivalent Benefit (SSEB) portion of tier I, a Non-Social Security Equivalent Benefit (NSSEB) portion of tier I, a tier II benefit, a vested dual benefit, and a supplemental annuity.

In most cases, part of a railroad retirement annuity is treated like a social security benefit for Federal income tax purposes, while other parts of the annuity are treated like private pensions for tax purposes. Consequently, most annuitants are sent two tax statements from the RRB each January, even though they receive only a single annuity payment each month.

2. Which railroad retirement benefits are treated as social security benefits for Federal income tax purposes?

The SSEB portion of tier I (the part of a railroad retirement annuity equivalent to a social security benefit based on comparable earnings) is treated for Federal income tax purposes the same way as a social security benefit. The amount of these benefits that may be subject to Federal income tax, if any, depends on the beneficiary's income.

If taxable pensions, wages, interest, dividends, and other taxable income, plus tax-exempt interest income, plus half of the amount of the social security equivalent benefit payments exceed:

- $25,000 for an individual, $32,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 50 percent of these railroad retirement benefit payments may be considered taxable income;
- $34,000 for an individual, $44,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 85 percent of these benefits may be taxable.

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3. Which railroad retirement benefits are treated like private pensions for Federal income tax purposes?

The NSSEB portion of tier I, along with tier II benefits, vested dual benefits, and supplemental annuities are all treated like private pensions for Federal income tax purposes. In some cases, primarily those in which early retirement benefits are payable to retired employees and spouses between ages 60 and 62, and some occupational disability benefits, the entire annuity may be treated like a private pension. This is because social security benefits based on age and service are not payable before age 62 and social security disability benefit entitlement requires total disability.

4. What information is shown on the railroad retirement tax statements sent to annuitants in January?

One statement, the blue and white Form RRB-1099 for U.S. citizens or residents (or black and white Form RRB-1042S for nonresident aliens), shows the SSEB portion of tier I or special minimum guaranty payments made during the tax year, the amount of any such benefits that an annuitant may have repaid to the RRB during the tax year, and the net amount of these payments after subtracting the repaid amount. The amount of any offset for workers' compensation and the amount of Federal income tax withheld from these payments are also shown. Illustrations and explanations of items found on Form RRB-1099 and Form RRB-1042S can be found in IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits.*

The other statement, the green and white Form RRB-1099-R (for both U.S. citizens and nonresident aliens), shows the NSSEB portion of tier I, tier II, vested dual benefit, and supplemental annuity paid to the annuitant during the tax year, as well as the employee contributions amount. **The NSSEB portion of tier I along with tier II are considered contributory pension amounts and are shown as a single combined amount in the Contributory Amount Paid box item on the statement.** The vested dual benefit and supplemental annuity are considered noncontributory pension amounts and are shown as separate box items on the statement. Also shown is the amount of Federal income tax withheld from these payments. In addition, the statement shows the amount of any of these prior year benefits repaid by the annuitant to the RRB during the tax year, but this amount is not subtracted from the gross amounts shown because its treatment depends on the years to which the repayment applies and its taxability in those years. To determine the year or years to which the repayment applies, annuitants should contact the RRB. Illustrations and explanations of items found on Form RRB-1099-R can be found in IRS Publication 575, *Pension and Annuity Income.*

If the annuitant is taxed as a nonresident alien of the United States, Form RRB-1042S and/or Form RRB-1099-R will show the rate of tax withholding (0%, 15% or 30%) and country of permanent residence.

The total Part B Medicare premiums deducted from the railroad retirement annuity may also be shown on either Form RRB-1099 (Form RRB-1042S for nonresident aliens) or Form RRB-1099-R.

The statements also include the annuitant's name, current mailing address, RRB claim number and payee code, United States taxpayer identifying number (social security number or individual taxpayer identification number), detailed explanations of all the items on the statements, and the toll-free telephone numbers and Web site addresses of the RRB, the Internal Revenue Service, and the Social Security Administration.

Copy B and/or Copy 2 of Form RRB-1099-R must be submitted with the annuitant's tax return. Annuitants should retain copy C of all statements for their records, especially if they may be required to verify their income in connection with other Government programs.

5. What is the significance of the employee contributions amount?

For railroad retirement annuitants, the employee contributions amount is considered the amount of railroad retirement payroll taxes paid by the employee that exceeds the amount that would have been paid in social security taxes if the employee's railroad service had been covered under the Social Security Act. The employee contributions amount is referred to by the IRS as an employee's investment, or cost, in the contract. Employee contributions are **not** a payment or income received during the tax year. Only employee and survivor annuitants have an employee contributions amount shown on their Form RRB-1099-R.

The use and recovery of the employee contributions amount is important for annuitants since it affects the amount of taxable income to be reported on income tax returns for a tax year. There is a tax savings advantage in using (recovering) employee contributions since it will reduce the amount of taxable income. Annuitants should refer to IRS Publication 575, *Pension and Annuity Income*, and Publication 939, *General Rule for Pensions and Annuities*, for more information concerning the tax treatment of the contributory amount paid (see item 6 below) and use of the employee contributions amount.

6. How are contributory and noncontributory pension amounts taxed?

Amounts shown on Form RRB-1099-R are treated like private pensions and taxed either as contributory pension amounts or as noncontributory pension amounts. The NSSEB portion of tier I and tier II (shown as the contributory amount paid on the statement) are contributory pension amounts. Contributory pension amounts may be fully taxable or partially taxable. Vested dual benefits and supplemental annuities are considered noncontributory pension amounts. Noncontributory pension amounts are always fully taxable.

For annuitants with annuity beginning dates **before July 2, 1986**, the contributory amount paid is fully taxable. For annuitants with annuity beginning dates from **July 2, 1986, through December 31, 1986**, the contributory amount paid is partially nontaxable for the life of the annuitant. For annuitants with annuity beginning dates effective **January 1, 1987, and later**, the contributory amount paid is partially nontaxable for a specified period of time based on life expectancy as determined by IRS actuarial tables.

The contributory amounts paid of disabled employee annuitants **under** minimum retirement age are fully taxable. (Minimum retirement age is generally the age at which individuals could retire based on age and service.) Employees who retired based on age and service and disabled employee annuitants who reach minimum retirement age may use the employee contributions amount shown on their Form RRB-1099-R to compute a tax-free portion of their contributory amount paid.

The RRB does not calculate the nontaxable amount of the contributory amount paid for annuitants. Annuitants should contact the IRS or their own tax preparer for assistance in calculating the nontaxable amount of their contributory amount paid. For more information on the tax treatment of the contributory amount paid, vested dual benefits, supplemental annuities, the employee contributions amount, and how to use the IRS actuarial tables, annuitants should refer to IRS Publication 939, *General Rule for Pensions and Annuities*, and IRS Publication 575, *Pension and Annuity Income.*

7. Does Form RRB-1099-R show the taxable amount of any contributory railroad retirement benefits or just the total amount of such benefits paid during the tax year?

Since 1993 (tax year 1992), Form RRB-1099-R shows the **total** amount of any contributory railroad retirement benefits (NSSEB and tier II) paid during the tax year. The RRB does **not** calculate the taxable amounts. It is up to the annuitant to determine the taxable and tax-free amounts of the contributory amount paid using the employee contributions amount.

8. Can an employee's contributions amount change?

Yes. The employee contributions amount shown on Form RRB-1099-R is based on the latest railroad service and earnings information available on the RRB's records. Railroad service and earnings information (and the corresponding employee contributions amount) often changes in the first year after an employee retires from railroad service. That's when the employee's final railroad service and earnings information is furnished to the RRB by his or her employer. As a result, the employee contributions amount shown on the most recent Form RRB-1099-R may have increased or decreased from a previously-issued Form RRB-1099-R.

Any change in an employee contributions amount is fully retroactive to the railroad retirement annuity beginning date. This could affect the taxable amounts reported to the IRS on prior income tax returns. Generally, an increase in the employee contributions amount is advantageous, as it will yield a larger tax-free amount. However, a decrease in the employee contributions amount may be disadvantageous since it may result in an increased tax liability. In any case, annuitants should determine if any change in their employee contributions amount would require them to file original or amended Federal income tax returns for prior tax years.

9. What if a person receives social security as well as railroad retirement benefits?

Railroad retirement annuitants who also received social security benefits during the tax year receive a Form SSA-1099 (or Form SSA-1042S if they are nonresident aliens) from the Social Security Administration. They should add the net social security equivalent or special guaranty amount shown on Form RRB-1099 (or Form RRB-1042S) to the net social security income amount

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shown on Form SSA-1099 (or Form SSA-1042S) to get the correct total amount of these benefits. They should then enter this total on the Social Security Benefits Worksheet in the instructions for Form 1040 or 1040A to determine if part of their social security and railroad retirement social security equivalent benefits is taxable income.

Additional information on the taxability of these benefits can be found in IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits.*

10. Are the residual lump sums, lump-sum death payments or separation allowance lump-sum amounts paid by the RRB subject to Federal income tax?

No. These amounts are nontaxable and are not subject to Federal income tax. The RRB does not report these amounts on statements.

11. Are Federal income taxes withheld from railroad retirement annuities?

Yes, and the amounts withheld are shown on the statements issued by the RRB each year. However, an annuitant may request that Federal income taxes not be withheld, unless the annuitant is a nonresident alien or a U.S. citizen living outside the United States.

Annuitants can voluntarily choose to have Federal income tax withheld from their SSEB payments. To do so, they must complete IRS Form W-4V, *Voluntary Withholding Request*, and send it to the RRB. They can choose withholding from their SSEB payments at the following rates: 7 percent, 10 percent, 15 percent, or 25 percent.

Annuitants who wish to have Federal income taxes withheld from their NSSEB and tier II (contributory amount paid), vested dual benefit, and supplemental annuity payments must complete a tax withholding election on Form RRB W-4P, *Withholding Certificate For Railroad Retirement Payments,* and send it to the RRB. An annuitant is **not** required to file Form RRB W-4P. If that form is not filed, the RRB will withhold taxes only if the combined portions of the NSSEB and tier II (contributory amount paid), vested dual benefit and supplemental annuity payments are equal to or greater than $1,472.01. In that case, the RRB withholds taxes as if the annuitant were married and claiming three allowances.

12. How is tax withholding applied to the railroad retirement benefits of nonresident aliens?

Under the Internal Revenue Code, nonresident aliens are subject to a 30-percent tax on income from sources within the United States not connected to a U.S. trade or business. The 30-percent rate applies to all annuity payments exceeding social security equivalent payments and to 85 percent of the annuity portion treated as a social security benefit. The Code also requires the RRB to withhold the tax. The tax can be at a rate lower than 30 percent or can be eliminated entirely if a tax treaty between the United States and the country of residence provides such an exemption, and the nonresident alien completes and sends Form RRB-1001, *Nonresident Questionnaire,* to the RRB. Form RRB-1001 secures citizenship, residency and tax treaty claim information for nonresident beneficiaries (nonresident aliens or U.S. citizens residing outside the United States).

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Form RRB-1001 is sent by the RRB to nonresident aliens every three years to renew the claim for a tax treaty exemption. **Failure by a nonresident alien to complete Form RRB-1001 will cause loss of the exemption until the exemption is renewed.** Such renewals have no retroactivity. Also, a nonresident alien must include his or her United States taxpayer identifying number on Form RRB-1001. Otherwise, any tax treaty exemption claimed on the form is not valid. The majority of nonresident aliens receiving annuities from the RRB are citizens of Canada, which has a tax treaty with the United States.

If a Canadian citizen claims an exemption under the tax treaty, no tax is withheld from the annuity portion equivalent to a social security benefit and a withholding rate of only 15 percent is applied to those annuity payments exceeding social security equivalent payments.

Additional information concerning the taxation of nonresident aliens can be found in IRS Publication 519, *U.S. Tax Guide for Aliens*.

13. Are unemployment benefits paid under the Railroad Unemployment Insurance Act subject to Federal income tax?

All unemployment benefit payments are subject to Federal income tax. Each January the RRB sends Form 1099-G to individuals, showing the total amount of railroad unemployment benefits paid during the previous year.

14. Are sickness benefits paid by the RRB subject to Federal income tax?

Sickness benefits paid by the RRB, except for sickness benefits paid for on-the-job injuries, are subject to Federal income tax under the same limitations and conditions that apply to the taxation of sick pay received by workers in other industries. Each January the RRB sends Form W-2 to affected beneficiaries. This form shows the amount of sickness benefits that each beneficiary should include in his or her taxable income.

15. Does the Board withhold Federal income tax from unemployment and sickness benefits?

The RRB withholds Federal income tax from unemployment and sickness benefits only if requested to do so by the beneficiary. A beneficiary can request withholding of 10 percent of his or her unemployment benefits by filing Form W-4V with the Board. A beneficiary can request withholding from sickness benefits by filing Form W-4S.

16. Are railroad retirement and railroad unemployment and sickness benefits paid by the RRB subject to State income taxes?

The Railroad Retirement and Railroad Unemployment Insurance Acts specifically exempt these benefits from State income taxes.

17. Can a railroad employee claim a tax credit on his or her Federal income tax return if the employer withheld excess railroad retirement taxes during the year?

If any one railroad employer withheld more than the annual maximum amount, the employee must ask that employer to refund the excess. It cannot be claimed on the employee's return.

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18. Can a railroad employee working two jobs during the year get a tax credit if excess retirement payroll taxes were withheld by the employers?

Railroad employees who also worked for a nonrailroad social security covered employer in the same year may, under certain circumstances, receive a tax credit equivalent to any excess social security taxes withheld.

Employees who worked for two or more railroads during the year, or who had tier I taxes withheld from their RRB sickness benefits in addition to their railroad earnings, may be eligible for a tax credit of any excess tier I or tier II railroad retirement taxes withheld. The amount of tier I taxes withheld from sickness benefits paid by the RRB is shown on Form W-2 issued to affected beneficiaries. Employees who had tier I taxes withheld from their supplemental sickness benefits may also be eligible for a tax credit of any excess tier I tax.

Such tax credits may be claimed on an employee's Federal income tax return.

Employees who worked for two or more railroads, received sickness benefits, or had both railroad retirement and social security taxes withheld from their earnings should see IRS Publication 505, *Tax Withholding and Estimated Tax*, for information on how to figure any excess railroad retirement or social security tax withheld.

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Notice to RRB Customers Making Payments by Check

Sometimes people have to remit money to the RRB and do so by writing a check. This generally happens when someone incurs a benefit overpayment and elects to settle the debt by refunding the overpaid amount. Also, some persons pay their Part B Medicare premiums by check. Those who need to remit money to the RRB should be aware of changes to the way the RRB, along with all other Federal agencies, will be processing their paper checks.

A new system, called Electronic Check Processing, was developed by the Department of the Treasury to provide Federal agencies with a centralized, secure, and enhanced paper check clearing process. Under this new system, if you send us a check, it will be converted into an electronic funds transfer. This means we will copy your check and use the account information on it to electronically debit your account for the amount of the check. You will not receive your original check back. The debit from your account will usually occur within 24 hours, and will be shown on your regular account statement. Consequently, it is very important that you have enough money in your account when you mail your check. Under the old system, it could take several days (often called the "float") before a payer's account was debited.