



RRB News

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Railroad Retirement and Unemployment Insurance Taxes in 2013

The amounts of compensation subject to railroad retirement tier I and tier II payroll taxes will increase in 2013. The tier I tax rates will remain the same on railroad employers, while railroad employees will see their effective tier I rate increase from 5.65 percent to 7.65 percent. The tier II tax rate on both employers and employees will increase by 0.5 percent. Also, railroad unemployment insurance tax rates paid by employers will not include a surcharge in 2013.

Tier I and Medicare Tax.--The railroad retirement tier I payroll tax rate on covered rail employers for the year 2013 remains at 7.65 percent. However, railroad employees will see their effective tier I rate increase from 5.65 percent to 7.65 percent. Legislation enacted in 2011 and 2012 provided for a temporary reduction of 2 percentage points in the social security payroll tax paid by employees, but that is currently scheduled to expire at the end of 2012. The railroad retirement tier I tax rate is the same as the social security tax, and for withholding and reporting purposes is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of an employee's earnings subject to the 6.20 percent rate increases from \$110,100 to \$113,700 in 2013, but there is no maximum on earnings subject to the 1.45 percent Medicare rate.

The Medicare payroll tax on high-income earners will also be increasing. Starting in 2013, an additional tax of 0.9 percent will be due on an individual's income exceeding \$200,000, or \$250,000 for a married couple filing a joint tax return. While employers will begin withholding the additional Medicare tax as soon as an individual's wages exceed the \$200,000 threshold, the final amount owed or refunded will be calculated as part of the individual's Federal income tax return.

Tier II Tax.--The railroad retirement tier II tax rate on employees will increase to 4.4 percent in 2013, up from 3.9 percent, and the employers' rate will increase to 12.6 percent from 12.1 percent. The maximum amount of earnings subject to railroad retirement tier II taxes will increase from \$81,900 to \$84,300 in 2013. Since 2004, tier II tax rates are based on an average account benefits ratio

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reflecting railroad retirement fund levels. Depending on this ratio, the tier II tax rate for employees can be between 0 percent and 4.9 percent, while the tier II rate for employers can range between 8.2 percent and 22.1 percent.

Unemployment Insurance Tax.--Employers, but not employees, pay railroad unemployment insurance taxes, which are experience-rated by employer. The Railroad Unemployment Insurance Act also provides for a surcharge in the event the Railroad Unemployment Insurance Account balance falls below an indexed threshold amount, and a surcharge of 1.5 percent applied in 2012. The accrual balance of the Railroad Unemployment Insurance Account was more than \$184.9 million on June 30, 2012. Since the balance exceeded the indexed threshold of \$137.3 million, no surcharge applies to the basic tax rates for 2013. A surcharge of 2.5 percent applied in 2011, with a surcharge of 1.5 percent in the years 2004-2010.

As a result, the unemployment insurance tax rates on railroad employers in 2013 will range from the minimum basic rate of 0.65 percent to the maximum of 12 percent on monthly compensation up to \$1,405, an increase from \$1,365 in 2012.

In 2013, the minimum rate of 0.65 percent will apply to 74 percent of covered employers, with 10 percent paying the maximum rate of 12 percent.

During the year, new employers will pay an initial tax rate of 3.69 percent, which represents the average rate paid by all employers in the period 2009-2011.

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