

Rail Employer Reporting Instructions
Part III - Principles of Service and Compensation
Chapter 4: Taxable Compensation under the Railroad Retirement Tax Act (RRTA)

Regulations under the Railroad Retirement Tax Act (RRTA)

The retirement, survivor, and disability benefit programs under the RRA are funded by mandatory employment taxes on both employees and employers under the Railroad Retirement Tax Act (RRTA). Under the current provisions of the RRTA, Tier I and Tier II compensation is subject to tax rates and earnings bases in effect when payment is made. Taxation under the RRTA is on a "paid basis" and is always in terms of the payment year.

Earned vs. Paid Compensation

When crediting compensation under the RRA, employers may choose to credit compensation either to the period in which the services were rendered, "earned basis" or to the period in which payment is made, "paid basis".

Note: Service months are always creditable to the month when earned.

Example of Earned vs. Paid Reporting

An employee earns \$400/week and is paid biweekly. The pay period for the last two weeks of the calendar year ends December 26, 2004 and the paycheck is issued on January 7, 2005 of the new calendar year. If the employer reports compensation on a *paid basis*, the \$800 is reported for 2005 and will be counted toward that year's maximum earnings base. If the employer reports compensation on an *earned basis*, the \$800 compensation amount earned in the final pay period of December is reported for 2004 and is counted toward 2004's maximum earnings base. In either case, taxes from that paycheck must be withheld at the 2005 tax rates and a service month is reported for December because the employee rendered service in December.

Earned vs. Paid Reporting under the RRTA

If compensation is reported on an earned basis (consistent with service months), the tax treatment of a payment made in a different calendar year than the year it is reported, may not be consistent under the RRTA with the manner in which the payment is credited as compensation under the RRA. If on the other hand, compensation is reported when paid, it will not necessarily be linked to the service period that is reported for that compensation. See Part IV, Chapter 1 for information about an employer's earned/paid election, and reporting RUIA compensation and employee rights to earned/paid election.

IRS Jurisdiction

The RRTA is administered by the Internal Revenue Service (IRS). The RRB has no authority to provide definitive answers to railroad retirement tax questions. A staff member in the Quality Reporting Service Center (QRSC) may be able to assist you with basic information about railroad retirement taxes. If not, you will be referred to a railroad retirement tax specialist at the IRS.

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Excess Tax Withholding from a Single Employer

Employees who have paid Tier I and/or Tier II employment tax in excess of the annual maximum from a single employer must seek their refund from that employer.

Excess Tax Withholding in Multiple Employer Situations

Employees who have paid employment tax for Tier I, or Tier II, in excess of the annual maximum taxable amounts because they had two or more employers in a calendar year, and the sum of their earnings exceeded the maximum creditable amount, should claim an income tax credit for excess Tier I taxes withheld on their annual tax return with the IRS. Complete Form 843, Claim for Refund and Request for Abatement to request a refund of excess Tier II taxes withheld.

Instructions on how to compute the credit amounts are in IRS Publication 17, Your Federal Income Tax. QRSC has developed a worksheet to help employees determine their tax credit. The worksheet is specific for each year's tax return. To request a worksheet for a specific tax year, contact:

Quality Reporting Service Center

Railroad Retirement Board
844 North Rush Street 7th Floor
Chicago, Illinois 60611-1275

Phone: (312) 751-4992

Fax: (312) 751-7123

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There is no provision for a credit or refund of Tier tax to the employers in this situation.