

**Rail Employer Reporting Instructions**  
**Part IV - Particular Types of Compensation Payments**  
**Chapter 10: Various Non-Routine Payments**

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**Bonus Pay**

Bonus payments, such as safety, incentive, fuel conservation, signing bonus, and suggestion awards, constitute creditable compensation because the payments are made in consideration of services.

Bonus pay which is conferred in non-monetary form is creditable as compensation only if there is an agreement between the employer and employee in advance as to the value of the non-monetary payment and that the award will be paid other than in cash.

The Railroad Retirement Act (RRA) and the Railroad Retirement Tax Act (RRTA) differ with respect to non-monetary payments. The RRA requires a prior agreement between the employer and employee on the form and value of the non-cash payment, while the RRTA does not require any agreement. Thus, a non-monetary payment which was not agreed upon may be taxable but is not creditable. Also see stock options below.

**Retention Pay**

Payments made to an employee as an incentive to remain with the employer for a period of time are considered retention bonuses and constitute creditable compensation. Although a retention bonus may be paid along with severance pay at the time the employee terminates, the retention bonus is not severance pay and should not be included on [Form BA-9](#), "Report of Severance Pay and Separation Allowances Subject to Tier II Taxation".

If both a retention bonus and a separation allowance are being paid upon the employee's resignation, it is preferable if the two payments are issued separately. This will make clear to both the employee and the RRB, the amount of separation allowance which is subject to Tier II tax. This will help to prevent unnecessary inquiries to the employer for clarification.

**Qualified Stock Option Plans**

A stock option plan is considered a qualified plan if made under either an Incentive Stock Option Plan or an Employee Stock Purchase Plan as defined by sections 422 or 423, respectively, of the IRS Code of 1986 (26 U.S.C ss 422,423). Guidance on issues arising under the Internal Revenue Code (IRC) must be obtained from the Internal Revenue Service.

Under previous law, any qualified stock option plan purchased by an employee was not considered creditable or taxable compensation under the RRA, RUIA, and RRTA. However, the difference between the option price and the fair market value of the stock (commonly referred to as the "spread") at the time of exercise was considered creditable and taxable compensation.

Effective with tax year 2002, the "spread" value of the shares at the time of transfer is not considered taxable or creditable compensation. Thus the stock an employee receives through a qualified Incentive Stock Option or Employee Stock Purchase Plan will not result in additional

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compensation under the RRA in the year the stock is received or in the year the stock is transferred or sold.

**Non-Qualified Stock Option Plans**

Non-qualified stock option plans are sometimes called a non-statutory stock option plan. The grant of an option to purchase stock made under a non-qualified purchase plan is creditable and taxable compensation to the extent that the option has a readily ascertainable fair market value. The amount of compensation is determined under the rules of section 83 of the Internal Revenue Code (26 U.S.C. 83). As a general matter, the amount of additional compensation is the fair market value of the stock at the time of the stock transfer to the employee, less any amount the employee pays for the stock.

**Personal Days**

Compensated personal leave days, including days taken pursuant to the Family Leave Act, are considered pay for time lost and are creditable as service and compensation. If an employee is paid for unused leave the payment yields creditable compensation but not service month credit.

**Holiday Pay**

Holiday Pay or Birthday Bonus is creditable compensation. In addition, service may be credited for the month of the holiday or birthday.

**Productivity Fund Payments**

Productivity fund payments are made under cost-containment plans where distribution is made to employees for working in such a way as to reduce costs. Generally bank trust fund departments administer these funds. Productivity fund payments are creditable and taxable as Tier I, Tier II, and RUIA compensation, but do not yield a service month credit. Although creditable as RUIA compensation, based on coordination or prorated with the employer, the payments do not usually yield additional RUIA compensation credit.

**Profit Sharing/Loss Sharing**

Employees, who receive more or less than their regular earnings due to profit or loss sharing plans, are credited with and taxed on the actual amount received. Payments made under a profit sharing plan are creditable compensation.

**Purchase of Employee Benefits**

The payment to an employee for the termination or "purchase" of an employee right or benefit, such as seniority rights, profit sharing rights, sick benefits, etc., is creditable compensation.

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**Tips**

Tip earnings of \$20 or more per month are creditable as Tier I and Tier II compensation and are to be included in the annual report of service and compensation. Tips are not subject to RUIA contributions. Tip compensation is subject to employee Medicare and Tier taxes but tax liability for tips does not extend to employers. If the employer is reporting tip income to the IRS under the Tip Rate Alternative Commitment program (TRACE) or the Tip Rate Determination Agreement (TRDA), the total amount should be reported to the RRB as creditable compensation.