

2021 NATIONAL RAIL EMPLOYERS TRAINING SEMINAR

Navigating Form BA-15: Report of Stock Options and Other Payments

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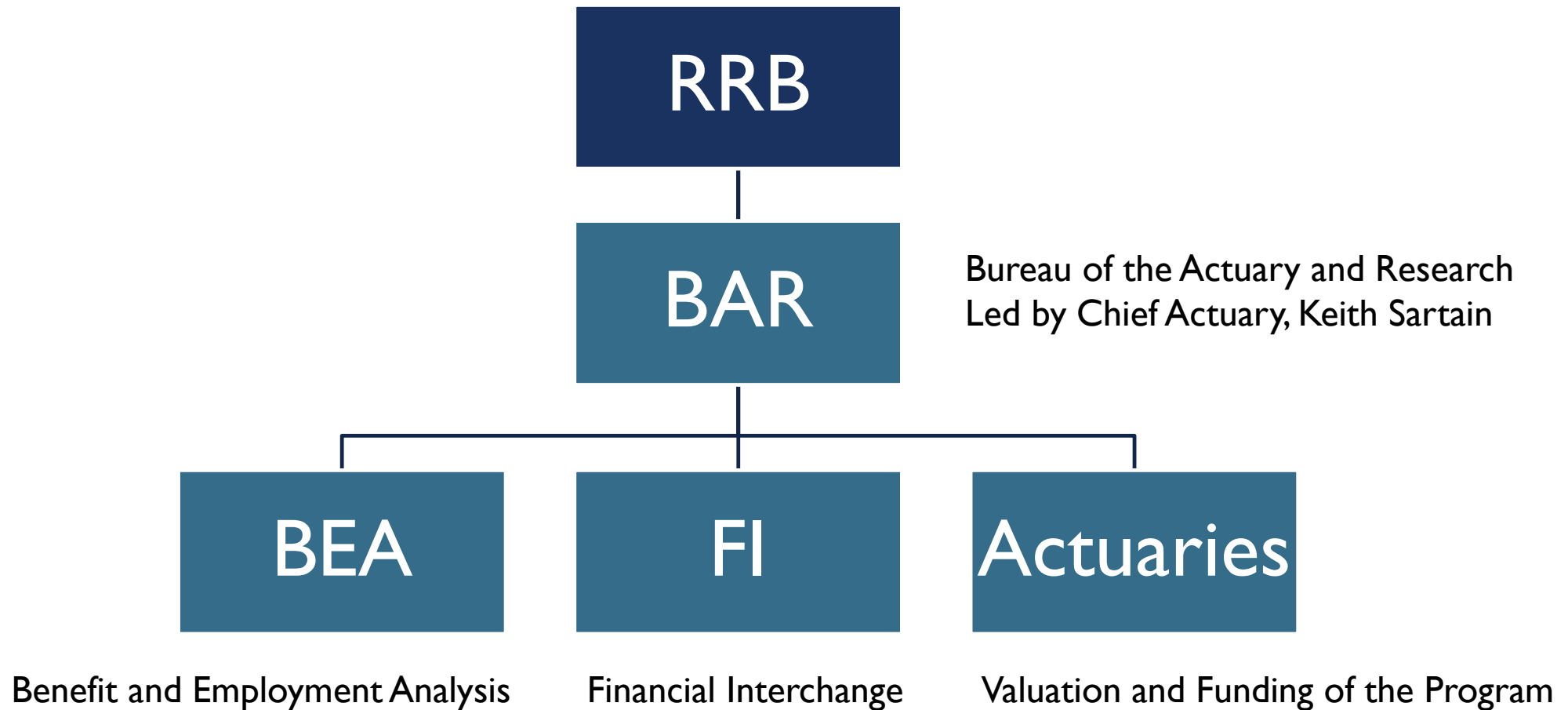
THE INS AND OUTS OF FORM BA-15

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- What is Form BA-15?
- What changed? Why a new Form BA-15 now?
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AN INTRODUCTION TO THE FINANCIAL INTERCHANGE (FI)

- The financial interchange between the railroad retirement and social security systems is intended to place the Social Security Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds and the Centers for Medicare and Medicaid Services Hospital Insurance (HI) Trust Fund in the same condition they would have been had railroad employment been covered by the Social Security and Federal Insurance Contributions Acts (FICA).
- Every year estimates are made of the additional benefits and administrative expenses that would have been paid from the Trust Funds as well as the additional payroll taxes and income taxes that would have been received by them, with allowances for interest.
- For fiscal year 2020, \$4.90 billion was transferred from the OASDI trust funds to the RRB in June 2021, whereas \$0.57 billion was due to the HI trust fund from the RRB.

FINANCIAL INTERCHANGE IS PART OF BAR



WHAT CHANGED? WHY A NEW BA-15 NOW?

- In *Wisconsin Central Ltd. v. U.S.*, 138 S. Ct. 2067 (2018), the U.S. Supreme Court ruled that non-qualified stock options (NQSOs) are not taxable under Section 3231 of the Railroad Retirement Tax Act (RRTA) but would be taxable under Federal Insurance Contributions Act (FICA).
 - In other words, Tier 1 and Tier 2 taxes are not withheld when an employee, who is covered by the RRTA, exercises stock options. Federal income tax must still be withheld on taxable compensation from railroad employees exercising their options under the FICA.
- Additionally, in *Union Pacific Railroad Co. v. U.S.*, 865 F.3d 1045 (8th Cir. 2017), the Eight Circuit Court of Appeals determined whether certain ratification payments were taxable under the RRTA.
- Form BA-15 was created so that railroad employers can provide information on the value of NQSOs and any ratification payments separately from a railroad worker's reported RRTA compensation.
- FI uses reported stock option information to determine the appropriate payroll taxes due to the Social Security Administration (SSA) and Centers for Medicare and Medicaid Services (CMS) and to administer the transfer of funds between the three agencies.

WHAT IS FORM BA-15 FOR?

- Form BA-15 collects data on stock options and other payments from employers primarily for use in the annual financial interchange determination.
 - Specifically, the information on stock options and other payments is essential in determining the payroll tax amounts involved in the financial interchange with SSA and CMS.
 - In addition, cash flow projections of the Social Security Equivalent Benefit Account (SSEBA) and the Railroad Retirement Account (RRA), as well as other cost estimates made for proposed amendments to laws administered by the RRB are dependent on inputs developed from the information collected on Form BA-15.
- The FI Division does not use stock options data collected on Form BA-15 to calculate benefit payments to beneficiaries.

WHAT DATA ARE COLLECTED ON FORM BA-15?

The employer is required by section 209.2 of the RRB's Regulations to report and submit a Form BA-15, Report of Stock Options and Other Payments for all employees that received non-qualified stock options (NQSOs) and/or ratification payments during the previous year. The report includes:

1. Medicare wages,
2. RRTA gross compensation,
3. The amount of NQSOs exercised, if any,
4. The amount of ratification payments received, if any.

MORE ON RRTA GROSS COMPENSATION

RRTA Gross compensation consists of all earnings taxable under the hospital insurance portion of the Tier I tax. This **includes** but is not limited to:

- Earnings above the taxable limit,
- Sick pay, and
- Miscellaneous compensation.

However, RRTA gross compensation may **exclude**:

- NQSOs,
- Ratification payments made to railroad employees that the railroad did not report as part of the employee's RRTA compensation, and
- Pre-taxable deductions for cafeteria plans (also known as flexible benefit plans).

TAX IMPLICATIONS OF NONQUALIFIED STOCK OPTIONS

Upon grant:

- No tax impact upon grant, if granted at fair market value (FMV).

Upon exercise:

- The spread between exercise price and FMV of options is ordinary income, reported on the employee's W-2 and is subject to withholding.
- Minimum withholding is 25% for Federal, 1.45% for Medicare, and 6.2% for FICA (up to annual taxable limit), plus applicable state tax withholding.

A QUICK CHECK

Medicare Wages = RRTA Gross Compensation
+ NQSOs
+ Ratification Payments

BA-15 HELPFUL HINTS

1. Do not limit the amounts on Form BA-15 to the annual Tier I or Tier II creditable maximum amounts for the year.
2. An employee's RRTA gross compensation report on Form BA-15 should not be less than the same employee's Tier I amount on Form BA-3.
3. Amounts reported on Form BA-15 and creditable compensation reported on Form BA-3 must both be reported on the same basis, either "paid" or "earned".

REPORTING REQUIREMENTS

- Each employer is required by law to report the Medicare wages for each employee who has received either NQSOs or ratification payments. This information is an essential part of the data needed to compute the payroll tax calculations required in the financial interchange.
- If you have no employees receiving either NQSOs or ratification payments, you must file Form G-440 with the appropriate box on the Form G-440 indicating no employees to report.

DUE DATES, FREQUENCY OF REPORTS, AND DATA FORMAT

- The BA-15 forms are to be reported for the same periods as used in determining the employer's annual report of creditable service and compensation (Form BA-3).
- Employers will report stock options and other payments information annually to the RRB in a quarterly breakdown (see slide 17).
- Report information on compensation, stock options and other payments for tax years 2017, 2018, 2019, and 2020.
- Report information for all employees (i.e., not just those with SSNs ending in 30 as on Form BA-11).

DUE DATES, FREQUENCY OF REPORTS, AND DATA FORMAT (CONT.)

- The Form BA-15 for the preceding calendar year is due the last day of February of the following year and must be accompanied by Form G-440, Report Specifications Sheet.
- Form BA-15 can be submitted via File Transfer Protocol (FTP), secure E-mail or sent via CD-ROM, as instructed in filing instructions. The format for the files can be found in the Excel data file (see slide 17).

MORE ON DATA FORMAT

UNITED STATES OF AMERICA
RAILROAD RETIREMENT BOARD

Form Approved
OMB No. 3220-0203

REPORT OF STOCK OPTIONS AND OTHER PAYMENTS
(SEE INSTRUCTIONS FOR COMPLETING THIS FORM BELOW)


The purpose of this report is to obtain information on non-qualified stock options (NQSOs) and ratification payments for railroad employees. This information is required for the computation of the Financial Interchange with the Social Security Administration and Centers for Medicare & Medicaid Services. This report is required by law under Section 7(b)(6) of the Railroad Retirement Act. Failure to report or the making of a false or fraudulent report can result in criminal prosecution or civil penalties or both.

FORM G-440, REPORT SPECIFICATIONS SHEET, MUST ACCOMPANY THIS FORM.

Medicare Wages, RRTA Gross Compensation, Stock Options and Other Payments

| 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | 10. | 11. | 12. | 13. | 14. | 15. | 16. | 17. | 18. | 19. | 20. | 21. | 22. | 23. | 24. | 25. | 26. | 27. | | |
|---------------------------------|-----------------------------|-----------|----------------|----------------|-----------------|----|--------------------|---|---|---|---|---------------------|---|---|---|---|---------------------|--|--|--|--|---------------------|--|--|--|--|--|--|
| I = Initial; R = Replacement | Year being reported (CCYY). | BA Number | Employee's SSN | Last Name (20) | First Name (15) | MI | Filler leave blank | Medicare Q1 - 10 positions (\$\$\$\$\$\$cc) | Medicare Q2 - 10 positions (\$\$\$\$\$\$cc) | Medicare Q3 - 10 positions (\$\$\$\$\$\$cc) | Medicare Q4 - 10 positions (\$\$\$\$\$\$cc) | Filler, leave blank | RRTA Q1 - 10 positions (\$\$\$\$\$\$cc) | RRTA Q2 - 10 positions (\$\$\$\$\$\$cc) | RRTA Q3 - 10 positions (\$\$\$\$\$\$cc) | RRTA Q4 - 10 positions (\$\$\$\$\$\$cc) | Filler, leave blank | NQSOs Q1 - 10 positions (\$\$\$\$\$\$cc) | NQSOs Q2 - 10 positions (\$\$\$\$\$\$cc) | NQSOs Q3 - 10 positions (\$\$\$\$\$\$cc) | NQSOs Q4 - 10 positions (\$\$\$\$\$\$cc) | Filler, leave blank | Ratification Payments Q1 - 10 positions (\$\$\$\$\$\$cc) | Ratification Payments Q2 - 10 positions (\$\$\$\$\$\$cc) | Ratification Payments Q3 - 10 positions (\$\$\$\$\$\$cc) | Ratification Payments Q4 - 10 positions (\$\$\$\$\$\$cc) | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

FORM W-2

| | | | | | | | |
|---|----------------------------|--|--|----------------------------|---------------------------------------|---|-------------------------|
| | | a Employee's social security number | | Safe, accurate, FAST! Use | |  Visit the IRS website at www.irs.gov/efile | |
| | | OMB No. 1545-0008 | | | | | |
| b Employer identification number (EIN) | | | 1 Wages, tips, other compensation | | 2 Federal income tax withheld | | |
| c Employer's name, address, and ZIP code | | | 3 Social security wages | | 4 Social security tax withheld | | |
| | | | 5 Medicare wages and tips | | 6 Medicare tax withheld | | |
| | | | 7 Social security tips | | 8 Allocated tips | | |
| d Control number | | | 9 | | 10 Dependent care benefits | | |
| e Employee's first name and initial | | Last name | | Suff. | | 11 Nonqualified plans | |
| | | | | | | 12a See instructions for box 12 | |
| | | | | | | 12b | |
| | | | | | | 12c | |
| | | | | | | 12d | |
| | | | | | | | |
| f Employee's address and ZIP code | | | | | | | |
| 15 State | Employer's state ID number | | 16 State wages, tips, etc. | 17 State income tax | 18 Local wages, tips, etc. | 19 Local income tax | 20 Locality name |
| | | | | | | | |

Form **W-2** Wage and Tax Statement

2021

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

IRS INSTRUCTIONS FOR BOX 12

Instructions for Employee *(continued from back of Copy C)*

Box 12 *(continued)*

F—Elective deferrals under a section 408(k)(6) salary reduction SEP

G—Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan

H—Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan. See the Instructions for Forms 1040 and 1040-SR for how to deduct.

J—Nontaxable sick pay (information only, not included in box 1, 3, or 5)

K—20% excise tax on excess golden parachute payments. See the Instructions for Forms 1040 and 1040-SR.

L—Substantiated employee business expense reimbursements (nontaxable)

M—Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (former employees only). See the Instructions for Forms 1040 and 1040-SR.

N—Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (former employees only). See the Instructions for Forms 1040 and 1040-SR.

P—Excludable moving expense reimbursements paid directly to a member of the U.S. Armed Forces (not included in box 1, 3, or 5)

Q—Nontaxable combat pay. See the Instructions for Forms 1040 and 1040-SR for details on reporting this amount.

R—Employer contributions to your Archer MSA. Report on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts.

S—Employee salary reduction contributions under a section 408(p) SIMPLE plan (not included in box 1)

T—Adoption benefits (not included in box 1). Complete Form 8839, Qualified Adoption Expenses, to figure any taxable and nontaxable amounts.

V—Income from exercise of nonstatutory stock option(s) (included in boxes 1, 3 (up to the social security wage base), and 5). See Pub. 525, Taxable and Nontaxable Income, for reporting requirements.

W—Employer contributions (including amounts the employee elected to contribute using a section 125 (cafeteria) plan) to your health savings account. Report on Form 8889, Health Savings Accounts (HSAs).

Example #1: Initial Reporting - "I"; Medicare Wages **Above The Annual Taxable Limit**

Overridge, Abby

SSN: 999-12-3456

BA Number: 9999

| 2020 Income Summary | Total | Q1 | Q2 | Q3 | Q4 |
|--|---------------------|-------------|-------------|--------------|-------------|
| (a) Medicare Wages | \$250,000.00 | \$50,000.00 | \$50,000.00 | \$100,000.00 | \$50,000.00 |
| (b) RRTA Gross Compensation | \$150,000.00 | \$25,000.00 | \$10,000.00 | \$100,000.00 | \$15,000.00 |
| (c) Non-Qualified Stock Options (NQSOs) | \$100,000.00 | \$25,000.00 | \$40,000.00 | \$0.00 | \$35,000.00 |
| (d) Non-Taxable Ratification Payments | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |

1. Abby's 2020 Medicare wages (i.e., not limited by the 2020 taxable limit of \$137,700) were \$250,000 (as reported in 2020 Form W-2 Box 5), of which \$100,000 was considered income from exercising non-qualified stock options (NQSOs). Therefore, Abby's RRTA gross compensation for 2020 was \$150,000.
2. NQSOs: During the year, Abby received income of \$25,000 in Q1, \$40,000 in Q2, \$0 in Q3 and \$35,000 in Q4 from exercising her non-qualified stock options, for a total of \$100,000.
3. Abby did not receive any ratification payments in 2020.
4. Abby's 2020 Form W-2 showed \$100,000 in Box 12 for income from exercise of non-qualified stock options.

Example #2: Initial Reporting - "I"; Medicare Wages Near The Annual Taxable Limit

Nearson, Burt
SSN: 999-34-5678
BA Number: 9999

| 2020 Income Summary | Total | Q1 | Q2 | Q3 | Q4 |
|--|---------------------|-------------|-------------|-------------|-------------|
| (a) Medicare Wages | \$140,000.00 | \$37,500.00 | \$32,500.00 | \$32,500.00 | \$37,500.00 |
| (b) RRTA Gross Compensation | \$130,000.00 | \$32,500.00 | \$32,500.00 | \$30,000.00 | \$35,000.00 |
| (c) Non-Qualified Stock Options | \$10,000.00 | \$5,000.00 | \$0.00 | \$2,500.00 | \$2,500.00 |
| (d) Non-Taxable Ratification Payments | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |

1. Burt's 2020 Medicare wages (i.e., not limited by the 2020 taxable limit of \$137,700) were \$140,000 (as reported in 2020 Form W-2 box 5), of which \$10,000 was considered income from exercising non-qualified stock options.
2. During the year, Burt exercised some of his stock options and received income of \$5,000 in Q1, \$0 in Q2, \$2,500 in Q3, and \$2,500 in Q4.
3. Burt did not receive any ratification payments in 2020.
4. Burt's 2020 Form W-2 showed \$10,000 in box 12 for income from exercise of non-qualified stock options.

Example #3: Initial Reporting - "I"; Medicare Wages Below The Annual Taxable Limit

Underwood, Chip

SSN: 999-56-7890

BA Number: 9999

| 2020 Income Summary | Total | Q1 | Q2 | Q3 | Q4 |
|--|--------------------|-------------|-------------|-------------|-------------|
| (a) Medicare Wages | \$50,000.00 | \$12,500.00 | \$12,500.00 | \$12,500.00 | \$12,500.00 |
| (b) RRTA Gross Compensation | \$45,000.00 | \$12,500.00 | \$12,500.00 | \$7,500.00 | \$12,500.00 |
| (c) Non-Qualified Stock Options | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| (d) Non-Taxable Ratification Payments | \$5,000.00 | \$0.00 | \$0.00 | \$5,000.00 | \$0.00 |

1. Chip's 2020 Medicare wages (i.e., below the 2020 taxable limit of \$137,700) were \$50,000 (as reported in 2020 Form W-2 Box 5).
2. Chip did not receive any stock options from the employer, but he received a ratification payment of \$5,000 in Q3.
3. Chip's 2020 RRTA gross compensation was \$45,000 (i.e., \$50,000 - \$0 - \$5,000)

Example #4: Replacement Reporting - "R"; Medicare Wages Above The Annual Taxable Limit

Overridge, Abby

SSN: 999-12-3456

BA Number: 9999

| 2019 Income Summary | Total | Q1 | Q2 | Q3 | Q4 |
|--|---------------------|-------------|-------------|-------------|-------------|
| (a) Medicare Wages | \$205,000.00 | \$50,000.00 | \$50,000.00 | \$55,000.00 | \$50,000.00 |
| (b) RRTA Gross Compensation | \$105,000.00 | \$25,000.00 | \$10,000.00 | \$55,000.00 | \$15,000.00 |
| (c) Non-Qualified Stock Options | \$100,000.00 | \$25,000.00 | \$40,000.00 | \$0.00 | \$35,000.00 |
| (d) Non-Taxable Ratification Payments | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |

1. Due to a reporting error, Abby's 2019 Medicare Wage was revised to \$205,000, which was above the 2019 Social Security wage base of \$132,900. Abby also received income of \$100,000 from exercising her non-qualified stock options in 2019. Therefore, Abby's 2019 RRTA gross compensation was \$105,000.
2. Abby did not receive any ratification payments in 2019.
3. Abby's 2019 Form W-2 showed \$100,000 in box 12 for income from exercise of non-qualified stock options.