
FEDERAL INCOME TAX and RAILROAD RETIREMENT BENEFITS



U. S. Railroad Retirement Board
MISSION STATEMENT

The Railroad Retirement Board's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The Railroad Retirement Board also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code.

In carrying out its mission, the Railroad Retirement Board will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The Railroad Retirement Board will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.

Federal Income Tax and Railroad Retirement Benefits

The following questions and answers describe the statements issued by the Railroad Retirement Board 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 Railroad Retirement Board. For further Federal income tax information, railroad retirement beneficiaries should contact the nearest office of the Internal Revenue Service.

For the phone number or address of the nearest Board field office, individuals should look in the telephone directory under “United States Government,” or check with their local union official, rail employer, post office, or Federal Information Center. They can also find the address and phone number of the Board office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772 or by checking the Board’s Web site at www.rrb.gov. Board field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

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 eligibility requirements: 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 Railroad Retirement Board 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.

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

The NSSEB portion of tier I, 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, some occupational disability benefits, and other categories of unique Board entitlements, 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, social security disability benefit entitlement requires total disability, and the Social Security Administration does not pay some categories of beneficiaries paid by the Board.

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 Board 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 contribution 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 4) on the statement.** The vested dual benefit and supplemental annuity are considered non-contributory pension amounts and are shown as separate box items on the statement. The total gross paid amount shown on Form RRB 1099-R is the sum of the NSSEB portion of tier I, tier II, vested dual benefit and supplemental annuity payments. Also shown is the amount of Federal income tax withheld from these payments. The statement also shows the amount of any of these prior year benefits repaid by the annuitant to the Board during the tax year. 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 Board. 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, railroad retirement claim number and payee code, United States taxpayer identifying number (social security number or individual taxpayer identification number or employer identification number), detailed explanations of all the items on the statements, and the toll-free telephone numbers and Web site addresses of the Board, the IRS, 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 contribution amount?

For railroad retirement annuitants, the employee contribution 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 contribution amount is referred to by the IRS as an employee's investment, or cost, in the contract. An employee contribution amount is **not** a payment or income received during the tax year. Only employee and survivor annuitants have an employee contribution amount shown in Item 3 of their Form RRB-1099-R.

The contributory amount paid (NSSEB portion of tier I and/or tier II) is considered income and is reported to the IRS. The contributory amount paid is either fully taxable or partially taxable depending on whether the employee contribution amount has been used to compute a tax-free (nontaxable) portion of the contributory amount paid. If **no** employee contribution amount is shown on

Form RRB-1099-R, then the contributory amount paid is fully taxable.

The use and recovery of the employee contribution 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 may reduce the taxability of the contributory amount paid and, in turn, 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 items 6 and 7 below) and use of the employee contribution amount.

6. If an employee contribution amount is shown on my Form RRB-1099-R, may I use the entire amount?

The employee contribution amount shown is attributable to the railroad retirement account number. This means that the employee contribution amount must be shared by all eligible annuitants under that same railroad retirement account number.

If an employee contribution amount is shown on your Form RRB-1099-R and your annuity beginning date is July 2, 1986, or later, you may be able to use some or all of the employee contribution amount shown to compute the nontaxable (tax-free) amount of your contributory amount paid. Therefore, your contributory amount paid and total gross paid shown on your Form RRB-1099-R may be partially taxable.

If an employee contribution amount is **not** shown on your Form RRB-1099-R, you **cannot** use or share the employee contribution amount. Therefore, your contributory amount paid and total gross paid shown on your Form RRB-1099-R are fully taxable.

When more than one annuitant is or was entitled to a contributory amount paid under the same railroad retirement account number, any eligible annuitants may **not** use the entire employee contribution amount shown on their Form RRB-1099-R for themselves. They must first determine the amount of the total employee contribution amount they are individually entitled to use. That means determining:

1. The portion of the total employee contribution amount still potentially available for use, and
2. The portion of that amount that must be shared by those eligible annuitants currently receiving contributory amounts paid.

7. 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 depending on the presence and use (recovery) of the employee contribution amount. Vested dual benefits and supplemental annuities are considered noncontributory pension amounts. Noncontributory pension amounts are always fully taxable and do not involve the use of the employee contribution amount.

For annuitants with annuity beginning dates **before July 2, 1986**, the contributory amount paid is fully taxable. These annuitants **cannot** use the employee contribution amount, even if the amount is shown on Form RRB-1099-R, to compute a nontaxable amount of their contributory amount paid because their employee contribution amount has been fully recovered. Since

the contributory amount paid is fully taxable, the total gross pension paid in Item 7 of Form RRB-1099-R 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. These annuitants may use some or all of the employee contribution amount to compute the nontaxable amount of their contributory amount paid. Once that nontaxable amount is computed, it does not need to be recomputed and can be used for each tax year unless there is a change in the employee contribution amount, annuity beginning date, date of birth used to determine life expectancy, or the number of eligible annuitants receiving contributory amounts paid. Therefore, the total gross pension paid in Item 7 of Form RRB-1099-R may be partially taxable.

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. These annuitants may use some or all of the employee contribution amount to compute the nontaxable amount of their contributory amount paid. Once that nontaxable amount is computed, it does not need to be recomputed and can be used for each tax year unless there is a change in the employee contribution amount, annuity beginning date, date of birth used to determine life expectancy, or the number of eligible annuitants receiving contributory amounts paid. Therefore, the total gross pension paid in Item 7 of Form RRB-1099-R may be partially taxable. **However, once the specified life expectancy is met, the employee contribution amount is considered fully recovered and the contributory amount paid and total gross pension paid are fully taxable.**

The contributory amounts paid of disabled employee annuitants **under** minimum retirement age are fully taxable and these annuitants **cannot** use the employee contribution amount.

Therefore, the total gross pension paid in Item 7 of Form RRB-1099-R is fully taxable. (Minimum retirement age is generally the age at which individuals could retire based on age and service, which is age 60 with 30 or more years of railroad service or age 62 with less than 30 years of railroad service.) **However, once the disabled employee annuitant reaches minimum retirement age, the annuitant may use the employee contribution amount shown on Form RRB-1099-R to compute the nontaxable amount of his or her contributory amount paid.**

The Board 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 contribution 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*.

8. 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 Board does **not** calculate the taxable amounts. It is up to the annuitant to determine the taxable and nontaxable (tax-free) amounts of the contributory amount paid using the employee contribution amount.

9. Can an employee contribution amount change?

Yes. The employee contribution amount shown on Form RRB-1099-R is based on the latest railroad service and earnings

information available on the Board's records. Railroad service and earnings information (and the corresponding employee contribution amount) often changes in the first year after an employee retires from railroad service. That is when the employee's final railroad service and earnings information is furnished to the Board by his or her employer. As a result, the employee contribution 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 contribution amount is fully retroactive to the railroad retirement annuity beginning date. Therefore, the nontaxable amount of the contributory amount paid should be recomputed. This could affect the taxable amounts reported to the IRS on prior income tax returns. Generally, an increase in the employee contribution amount is advantageous, as it will yield a larger tax-free amount. However, a decrease in the employee contribution 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 contribution amount would require them to file original or amended Federal income tax returns for prior tax years.

10. 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 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 rail-

road 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*.

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

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

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

Yes, and the amounts withheld are shown on the statements issued by the Board 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 Board. 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 Board. An annuitant is **not** required to file Form RRB W-4P. If that form is not filed, the Board 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 an annual threshold amount. In that case, the RRB withholds taxes as if the annuitant were married and claiming three allowances.

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

A nonresident alien is a person who is neither a citizen nor a resident of the United States. 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 Board 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 Board. 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).

Form RRB-1001 is sent by the Board 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 Board 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 social security equivalent benefit portion of tier I and a tax withholding rate of 15 percent is applied to the benefit portions treated like pension payments.

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

14. 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 Board sends Form RRB 1099-G to individuals, showing the total amount of railroad unemployment benefits paid during the previous year.

15. Are sickness benefits paid by the Board subject to Federal income tax?

Sickness benefits paid by the Board, 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 Board sends Form W-2, *Wage and Tax Statement*, to affected beneficiaries. This form shows the amount of sickness benefits that each beneficiary should include in his or her taxable income.

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

The Board 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 ben-

efits by filing Form W-4S, *Request for Federal Income Tax Withholding From Sick Pay*.

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

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

18. 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.

19. 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 Board 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 Board 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.

Comments? If you have any comments or suggestions regarding the presentation of information in this publication, please let us know. You can fax us at 1-312-751-7154, e-mail us at opa@rrb.gov or write us at the following address:
Public Affairs, U.S. Railroad Retirement Board, 844 North Rush Street, Chicago, IL 60611-2092.

FRAUD AND ABUSE HOT LINE

Call the toll-free Hot Line if you have reason to believe that someone is receiving railroad retirement or unemployment-sickness benefits to which he or she is not entitled; that a person responsible for the financial affairs of a minor or other benefit recipients who are unable to manage their own affairs is misappropriating benefits; or that a doctor, hospital or other provider of health care services is performing unnecessary or inappropriate services or billing Medicare for services not provided. You may also use the Hot Line to report any suspected misconduct by a Railroad Retirement Board employee. The Hot Line has been installed by the Railroad Retirement Board's Inspector General to receive any evidence of such fraud or abuse of the Board's benefit programs.

The toll-free Hot Line number nationwide is 1-800-772-4258. Or you may send your complaints in writing to RRB, OIG, Hot Line Officer, 844 North Rush Street, Chicago, Illinois 60611-2092 or via e-mail at hotline@oig.rrb.gov.

Please do not call or write the Inspector General's Hot Line with questions about eligibility requirements, delayed payments, or similar problems. Such matters should be directed to the nearest Railroad Retirement Board office.

NONDISCRIMINATION ON THE BASIS OF DISABILITY

Under Section 504 of the Rehabilitation Act of 1973 and Railroad Retirement Board regulations, no qualified person may be discriminated against on the basis of disability. The Board's programs and activities must be accessible to all qualified applicants and beneficiaries, including those with impaired vision and/or hearing. Individuals with disabilities needing assistance (including auxiliary aids or program information in accessible formats) should contact the nearest Board office. Complaints of alleged discrimination by the Board on the basis of disability must be filed within 90 days in writing with the Director of Administration, U. S. Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois 60611-2092. Questions about individual rights under this regulation may be directed to the Board's Director of Equal Opportunity at the above address.

This leaflet is issued for the purpose of general information. Certain limitations, exceptions, and special cases are not covered.



U.S. RAILROAD RETIREMENT BOARD

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Form TX-5 (October 2007)
