
**INFORMATION ABOUT
THE TAXATION OF
RAILROAD RETIREMENT ANNUITIES**



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Railroad Retirement Board
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PART 1

General Information

Section 1A: Railroad Retirement Annuities

A railroad retirement annuity is an amount paid monthly to retired (age or disability) railroad employees by the United States Railroad Retirement Board (RRB). The RRB also pays annuities to spouses, divorced spouses, and survivors of retired or deceased railroad employees.

Section 1B: Railroad Retirement Annuity Components

A railroad retirement annuity may include one, more or all of the following annuity components depending on age and eligibility requirements:

- Tier 1,
- Tier 2,
- Vested Dual Benefits (VDB),
- Supplemental Annuity Benefit.

The tier 1 component of a railroad retirement annuity may be composed of **two** portions depending on the beneficiary's age and type of annuity:

1. the Social Security Equivalent Benefit (SSEB) portion,
2. the Non-Social Security Equivalent Benefit (NSSEB) portion.

Section 1C: Social Security Benefits

The RRB also pays social security benefits to entitled beneficiaries based on certification from the Social Security Administration (SSA). The tier 1 portion of a railroad retirement annuity is reduced for social security benefit entitlement. The SSA, **not** the RRB, releases annual tax

statements reporting social security benefits paid for a tax year.

PART 2

Taxation of Railroad Retirement Annuities

Railroad retirement, survivor and disability annuities consisting of tier 1, tier 2, and VDB components, have been subject to United States Federal income tax since January 1, 1984. Supplemental annuities have been subject to United States Federal income tax since November 1, 1966.

However, tier 1, tier 2, and VDB benefits payable for the period before December 1983; Separation Allowance Lump Sum Amount (SALSA) payments; Residual Lump Sum (RLS) payments; Lump Sum Death (LSDP) payments; and excess tier 2 tax refunds are considered nontaxable payments for Federal income tax purposes. The term "nontaxable" means that the amount is **not** subject to Federal income tax. Refer to the Form RB-24, *Lump Sum Death, Residual Lump Sum, Annuities Unpaid At Death*, for further information concerning the definition, eligibility, and necessary proofs for these types of railroad retirement payments. These amounts are **not** reported on any tax statement issued by the RRB.

The term "tax free" only applies to the portion of otherwise taxable NSSEB and tier 2 (contributory amounts) payments that are not taxable for Federal income tax purposes based on employee contributions recovery rules. See Section 3A, *Employee Contribution Recovery*, for more information about employee contribution recovery.

According to Section 14 (45 U.S.C. Section 231m) of the Railroad Retirement Act, railroad retirement, survivor, and disability annuities are **not** taxable for state income tax purposes.

Section 2A: Taxation of Annuity Components

• **Social Security Equivalent Benefit (SSEB) Portion of the Tier 1 Component**

The SSEB portion of tier 1 is equivalent to the amount that SSA would pay if railroad service were covered under the Social Security Act. The special guaranty amount is a special computation (also called the “overall minimum” formula) which guarantees that the railroad retirement annuity is not less than what would be paid in social security benefits. The SSEB portion of tier 1 and the special guaranty amount are treated as **social security benefits** for Federal income tax purposes.

The amount of your SSEB portion of tier 1 or the special guaranty subject to Federal income tax depends upon your income exceeding a certain level. To determine if these benefits are taxable, refer to the social security benefits worksheet in the *Instructions for Form 1040 and/or Form 1040A Booklet(s)* from the Internal Revenue Service (IRS). For more detailed information, get IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

• **Non-Social Security Equivalent Benefit (NSSEB) Portion of Tier 1, and Tier 2 Components**

The NSSEB is the amount of tier 1 that **exceeds** the SSEB portion of tier 1. The tier 2 component of a regular railroad retirement annuity is based solely on the retired employee’s railroad service.

The NSSEB portion of the tier 1 component, and the tier 2 component of a railroad retirement annuity are treated like **contributory** pensions for Federal income tax purposes. The total of the NSSEB and tier 2 components is referred to as the “**contributory amount.**”

The taxability of your NSSEB portion of tier 1, and the tier 2 for Federal income tax purposes depends upon:

- your annuity beginning date (ABD): This is the earliest date permitted by law or a date that you designated from which the RRB begins paying you a railroad retirement annuity,
- the type of annuity that you are receiving,
- whether your employee contributions are recovered or not recovered,
- whether you were granted or not granted a period of disability,
- the type of method you use to figure the taxability of your annuity.

See Section 2B: *Contributory and Non-Contributory Pension*, for more information on contributory pensions. See Part 3: *Employee Contributions*, for more information on employee contributions and the methods to determine taxability. See Part 6: *Taxation of Special Railroad Retirement Payments*, for more information on the taxation of special payments.

In addition, to determine if the NSSEB and tier 2 are taxable, get IRS Publication 575, *Pension and Annuity Income (Including Simplified General Rule)* or IRS Publication 939, *Pension General Rule (Nonsimplified Method)*.

• **Vested Dual Benefit (VDB) Component**

The VDB is the component of a regular railroad retirement annuity that is payable in addition to the tier 1 and tier 2, to individuals who were eligible for both railroad and social security benefits prior to 1975.

The VDB component of a railroad retirement annuity is fully taxable for Federal income tax purposes and is treated like a **non-contributory** pension. See Section 2B: *Contributory and Non-Contributory Pensions*, for more information on non-contributory pensions.

- **Supplemental Annuity**

A supplemental annuity is an annuity in addition to the regular annuity payable to railroad retirement employees who have a current connection with the railroad industry; who completed at least 25 years of creditable railroad service; and who retired before their closing date. The closing date for most employees is the last day of the month following the month in which age 65 is attained.

The supplemental annuity is fully taxable for Federal income tax purposes and is treated like a **non-contributory** pension. See Section 2B: *Contributory and Non-Contributory Pensions*, for more information on non-contributory pensions.

Section 2B: Contributory and Non-Contributory Pensions

A portion of the railroad retirement annuity is similar to a social security benefit. The other portions are similar to contributory and/or non-contributory pensions for Federal income tax purposes.

Contributory pensions are based on contributions from the employee (wage earner). Contributory pensions are only taxed on the amount of the pension that **exceeds** the amount of contributions made by the employee. The NSSEB portion of tier 1, and tier 2 benefits are considered contributory pensions for Federal income tax purposes. See Part 3: *Employee Contributions*, for more information regarding the taxability of the NSSEB portion of tier 1, tier 2 benefits, and employee contributions.

Non-Contributory pensions are **not** based on contributions from the employee. The VDB and supplemental annuity benefits are non-contributory pensions.

PART 3 Employee Contributions

Employee contributions are the amount of railroad retirement taxes paid by the railroad 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. It is **not** an amount or income that you received during a tax year. Employee contributions are also referred to as the **"employee's contribution amount."**

Section 3A: Employee Contribution Recovery

The taxability of contributory pensions depends on whether the employee's contribution amount has been recovered and the type of annuity being paid.

The employee's contribution amount is fully recovered when the total tax free NSSEB and tier 2 amounts paid in railroad retirement annuities to the employee or family members **equal** the employee's contribution amount. At that time, any additional NSSEB and tier 2 paid exceeds the employee contributions, and are fully taxable. However, this does **not** apply to 1986 General Rule annuitants. See Section 3C: *General Rule Method*, for more information concerning the General Rule and 1986 General Rule annuitants.

The Three-Year Rule and the General Rule are the two methods used to recover the employee's contribution amount. Both methods are explained below.

See Part 6: *Taxation of Special Railroad Retirement Payments*, for more information on the taxability of special annuity types.

Section 3B: Three-Year Rule Method

The Three-Year Rule provision of the Internal Revenue Code applied to annuities that began **before** July 2, 1986. Under the Three-Year Rule,

the NSSEB and tier 2 become fully taxable only after the total of these benefits paid to all beneficiaries on the employee's wage record **exceeded** the employee's contribution amount. The Three-Year Rule also applied only if the employee's contribution amount could be recovered within a 36 month (or 3 year) period.

This method does **not** apply to beneficiaries filing for annuities at the present time. We do **not** have any beneficiaries under the Three-Year Rule currently receiving a railroad retirement annuity.

However, if a beneficiary was **previously** entitled to an annuity, all or some of the employee contributions may have been recovered at the time of that previous entitlement under the Three-Year Rule. If all of the employee contributions were recovered at that time, then the entire pension amount is taxable under the new annuity entitlement. If only some of the employee contributions were recovered at the time of that previous entitlement under the Three-Year Rule, then any unrecovered employee contribution amount at the end of the Three-Year Rule entitlement is used to determine the tax free portion of the NSSEB and tier 2 under the 1986 and/or 1987 General Rule. See Section 3C: *General Rule Method*, below.

Section 3C: General Rule Method

There are two categories of annuitants covered under the General Rule Provisions. The first category, referred to as 1986 General Rule annuitants, includes those with ABD's from July 2, 1986, through December 31, 1986. These annuitants are entitled to a permanent tax free amount for the life of the annuitant even after the employee contributions are actually recovered. The second category, referred to as 1987 General Rule annuitants, includes all annuitants with an ABD after December 31, 1986. These annuitants are entitled to a temporary tax free amount. This temporary tax free amount ends when the employee contributions are fully recovered.

The NSSEB/tier 2 components of a spouse annuity or the NSSEB portion of a divorced spouse's annuity are fully taxable from the ABD. No part of a spouse's NSSEB/tier 2 or a divorced spouse's NSSEB is used toward recovery of the employee's contribution amount under the General Rule Method.

There are two methods of determining the tax free and taxable portions under the General Rule: 1) the Nonsimplified Method, and 2) the Simplified Method.

The **Nonsimplified Method** consists of a series of complex calculations and was initially the only method to use. A description of this method and when to use it is explained in IRS Publication 939, *Pension General Rule (Nonsimplified Method)*.

In 1988, the IRS introduced another method of computing taxable and tax free amounts for General Rule cases called the **Simplified General Rule or the Simplified Method**. The computations under the Simplified Method are less complex than the Nonsimplified Method. To see if you qualify to use the Simplified Method, refer to IRS Publication 575, *Pension and Annuity Income (Including Simplified General Rule)*. Young widow(er)s, minor children and students who have fixed periods of entitlement cannot use the Simplified Method.

If you plan to use the Simplified Method, refer to the Simplified General Rule worksheets in the *Instructions for the Form 1040 and/or Form 1040A Booklet(s)* to determine your tax free amount. For more detailed information, get IRS Publication 575, *Pension and Annuity Income (Including Simplified General Rule)*.

The RRB does **not** provide or compute the tax free amount of your railroad retirement annuity.

PART 4

Tax Withholding Applied to Your Railroad Retirement Annuity

The RRB applies Federal income tax withholding to railroad retirement annuity payments. The tax withholding amount is computed and based on citizenship and residency, marital status, and tax withholding allowances. The RRB does not consider the tax free portions of NSSEB and tier 2 annuity components when calculating Federal income tax withholding.

For further information on Federal income tax withholding based on citizenship and residency, see Section 4A: *U.S. Citizen and Resident Tax Withholding*, and Section 4B: *Nonresident Alien Tax Withholding*.

In addition, refer to Booklet TB-25, *Tax Withholding and Railroad Retirement Payments*, for more detailed information regarding tax withholding on railroad retirement annuity payments.

Section 4A: U.S. Citizen and Resident Tax Withholding

A United States citizen, for Federal income tax purposes, is an individual born or naturalized in the United States, Guam, the U.S. Virgin Islands, Puerto Rico, or the Northern Mariana Islands. A resident alien of the United States for Federal income tax purposes is an individual who legally resides in, but is **not** a citizen of, the United States, Guam, the U.S. Virgin Islands, or the Northern Mariana Islands.

The RRB allows citizens and legal residents of the United States, Guam, the Northern Mariana Islands, and citizens of Puerto Rico to elect to have Federal income taxes withheld on their railroad retirement annuity payments. To have taxes withheld on the pension portions of your annuity, a tax withholding election must be filed on Form RRB W-4P, *Withholding Certificate For Railroad Retirement Payments*.

Beginning January 1, 1997, you can voluntarily choose to have Federal income tax withheld from your SSEB portion of tier 1 benefits. To make this choice, complete IRS Form W-4V, *Voluntary Withholding Certificate*, and send it to the RRB. You can choose withholding on your SSEB portion of tier 1 benefits at the following rates: 7%, 15%, 28%, or 31%.

You may request the RRB to withhold an additional amount of taxes from your annuity. This amount is in addition to the tax withholding amount computed from IRS tax table rates but may not exceed the amount of your pension components.

If you elect to have taxes withheld, you may control the amount of taxes withheld from your regular monthly or accrued annuity payments. Be sure to specify your marital status and number of withholding allowances on the Form RRB W-4P. If you make an election, it will remain in force until changed or revoked. You can change or revoke your election by filing a new Form RRB W-4P and/or IRS Form W-4V at any time. You are **not** required to file these forms.

You may elect **not** to have taxes withheld from your railroad retirement annuity payments on Form RRB W-4P and/or IRS Form W-4V **only if** you reside within the United States, Guam, Puerto Rico, the U.S. Virgin Islands, or the Northern Mariana Islands. If you live outside of these areas and are subject to U.S. citizen tax rules, you cannot elect “no” tax withholding.

If you do not file a Form RRB W-4P, the RRB is required **by law** to calculate and withhold taxes on the pension portions of your annuity (NSSEB, tier 2, VDB and supplemental annuity) as if you were married with three withholding allowances. This is called **mandatory citizen tax withholding**. The RRB does **not** initiate mandatory citizen tax withholding **unless** annuity components paid in a month **exceeds** a minimum mandatory withholding amount. This amount changes each

year based on the new IRS tax table rates. Refer to the **latest** Booklet TB-25, *Tax Withholding and Railroad Retirement Payments*, for the minimum mandatory withholding amount and more information on tax withholding.

We encourage our beneficiaries who are U.S. citizens to submit a signed statement stating their citizenship and/or a Form RRB-1001, *Nonresident Questionnaire*, **before** moving outside the United States. This is to avoid mandatory nonresident alien tax withholding being applied to the railroad retirement annuity. For more detailed information, get IRS Publication 593, *Tax Highlights for U.S. Citizens and Residents Going Abroad*.

NOTE: *If a U.S. citizen resides or moves outside the United States or Guam and has **not** filed Form RRB-1001, Nonresident Questionnaire, claiming U.S. citizenship, taxes will be withheld at a mandatory nonresident alien tax withholding rate until Form RRB-1001 or a signed statement declaring U.S. citizenship is received at the RRB. U.S. citizens residing in countries other than the United States, Guam, the U.S. Virgin Islands, Puerto Rico, or the Northern Mariana Islands **cannot** refuse tax withholding.*

Section 4B: Nonresident Alien Tax Withholding

A nonresident alien is an individual who is *neither* a citizen nor a resident of the United States, Guam, the U.S. Virgin Islands, or the Northern Mariana Islands, and is not a citizen of Puerto Rico. As prescribed by the Internal Revenue Code, nonresident aliens are subject to a mandatory tax withholding rate of:

- 30% of 85% of the SSEB,
- 30% of the NSSEB and tier 2,
- 30% of the VDB, and
- 30% of the supplemental annuity.

The United States has a number of tax treaties with other countries that may result in reduced tax withholding, or, in some instances, no tax

withholding for citizens or residents of those other countries. In order to take advantage of such a tax treaty, you must claim an exemption based on a tax treaty in effect between the United States and your country of legal residence. A tax treaty exemption must be renewed every three years. Form RRB-1001, *Nonresident Questionnaire*, should be completed by a nonresident beneficiary in order to furnish to the RRB:

- Citizenship;
- Residency; and
- Tax treaty claim exemption information.

You are required to file a Form RRB-1001. However, any nonresident beneficiary is assumed to be a nonresident alien if a Form RRB-1001 is not filed. The mandatory tax withholding rate prescribed by the Internal Revenue Code is applied to railroad retirement annuity payments. Contact the nearest RRB field office, an American Consulate or an American Embassy if you need help obtaining and/or completing Form RRB-1001, *Nonresident Questionnaire*, or if you need to submit proof of your legal residence. If you are a U.S. citizen, refer to the **latest** Booklet TB-25, *Tax Withholding and Railroad Retirement Payments*, for the minimum mandatory tax withholding amount and more information on tax withholding.

As a nonresident alien, you are **not** required to file a U.S. Federal income tax return if:

- your entire tax liability was fulfilled by withholding of U.S. Federal income tax on benefit payments;
- your only income from sources within the United States was not connected to a trade or business; and
- the correct amount of tax for the correct period was withheld.

However, you may wish to file a U.S. Federal income tax return to receive a refund if too much tax was withheld from your payments. Also, if you were a resident of the United States during a given tax year, you may be required to file a U.S.

Federal income tax return. For additional information on filing requirements for nonresident aliens, get IRS Publication 519, *U.S. Tax Guide for Aliens*.

PART 5

Repayments

A **repayment** is an amount of money that:

- you paid back to the RRB, or
- you returned to the RRB, or
- the RRB withheld from your railroad retirement annuity and/or payments to repay a debt.

Generally, most repayments are in response to annuity overpayments.

NOTE: *If a beneficiary receives an annuity payment with tax withholding as an annuity deduction and that same beneficiary was **not** entitled to that annuity payment, then the beneficiary must pay back the annuity payment **and** the tax withholding amount.*

The RRB withholds money from the annuities of those beneficiaries who elect tax withholding and when mandatory tax withholding rules apply. This money is deposited in an account with the U.S. Treasury and reported to the IRS for each beneficiary. The annuity paid during the tax year AND the amount withheld in taxes are shown on the beneficiaries' annual tax statements at the end of the year, so the beneficiaries receive credit for the taxes withheld.

SSEB repayment amounts are reported on Form RRB-1099 or Form RRB-1042S tax statements regardless of whether the SSEB amounts repaid were reported as taxable payments when originally paid to the annuitant. The IRS allows the use of SSEB repayment credit in these situations.

NSSEB, tier 2, VDB and/or supplemental annuity repayment credit **only applies** if the

NSSEB, tier 2, VDB and/or supplemental annuity repaid was previously reported to the IRS as a taxable payment. If the NSSEB, tier 2, VDB, and/or supplemental annuity repayment amount was **not** reported and **not** taxable when originally paid to the annuitant, then the annuitant cannot take repayment credit.

If the total repayment reported on the Form RRB-1099-R tax statement for a given tax year exceeds \$3,000.00, the annuitant may exercise a "Claim of Right" as explained in IRS Publication 575, *Pension and Annuity Income (Including Simplified General Rule)*. Contact the RRB to find out what years and annuity components the repayment represents if you need to determine what credit to take for the repayment amount. Refer to IRS Publication 575, *Pension and Annuity Income (Including Simplified General Rule)*, for additional information regarding NSSEB, tier 2, VDB and supplemental annuity repayments. See Part 7, *Annual Tax Statements*, for information concerning the Form RRB-1099-R tax statement

Over-reimbursements occur when the annuitant pays back more money in any one of the annuity components than he/she should have paid back. When the RRB receives an over-reimbursement, the RRB pays the annuitant the over-reimbursement amount as a nontaxable one payment only (OPO). Therefore, the amount of the over-reimbursement may not be considered a repayment.

Section 5A: Social Security Equivalent Benefit (SSEB) Portion of Tier 1

Under the Internal Revenue Code, the RRB can give repayment credit for the SSEB portion of tier 1 for *any* tax year. A SSEB repayment amount is any SSEB amount repaid, returned or recovered for payments issued prior to death. This includes tier 1 payments issued for the period prior to December 1983. SSEB repayment amounts are attributable to the year in which they are repaid to the RRB.

In some situations, the total SSEB benefits that you repaid to the RRB are more than the gross SSEB benefits that you received. This can result in a negative amount being reported as paid in item 5 of Forms RRB-1099 or RRB-1042S tax statement. If you received more than one Form RRB-1099, Form RRB-1042S or Form SSA-1099 tax statement representing the same tax year, you may use a negative amount from one tax statement to offset a positive amount reported on another tax statement representing that same tax year. Please refer to IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, or IRS Publication 519, *U.S. Tax Guide for Aliens*, for further information about negative amounts and SSEB repayments.

NOTE: Unlike the SSEB component, the taxable amount reported for the NSSEB, tier 2, VDB, and supplemental annuity for any tax year **cannot** be negative. This is regardless of the amount of the repayment.

Section 5B: Non-Social Security Equivalent Benefit (NSSEB) Portion of Tier 1, and Tier 2

The NSSEB portion of tier 1, and tier 2 repayments consist of amounts repaid, returned or recovered for payments issued prior to death. NSSEB and tier 2 repayments may be composed of taxable and tax free amounts. There are tax implications when considering NSSEB/tier 2 repayments. The way repayments are handled depends on the amount of the repayments and the tax years to which the repayments apply, and whether the benefits that you repaid were taxable income for those tax years after December 1983.

Section 5C: Vested Dual Benefit (VDB)

VDB repayments consist of amounts repaid, returned or recovered for payments issued prior to death. VDB repayments effective December 1983 may be creditable for tax purposes.

Section 5D: Supplemental Annuity

Supplemental annuity repayment amounts consist of amounts repaid, returned or recovered for payments issued prior to death. Supplemental annuity repayments effective November 1966 may be creditable for tax purposes.

PART 6

Taxation of Special Railroad Retirement Payments

Section 6A: Disability Annuities

If you retired on a disability annuity, payments you receive are fully taxable as wages until you reach minimum retirement age. Minimum retirement age is the age at which you could first receive an annuity were you not disabled. Beginning on the day you reach minimum retirement age, you may determine if you are entitled to a tax free portion of your contributory pension components. See Part 3: *Employee Contributions*, for more information on tax free portions of contributory pension components.

Minimum retirement age for RRB disability annuitants is attained at age 60 with 30 or more years of service, **or** at age 62 with less than 30 years of service. Under the General Rule, when minimum retirement age is attained, part of the NSSEB portion of tier 1, and tier 2 is tax free. The other part of the NSSEB portion of tier 1, and tier 2 is taxable, regardless if you were or were not granted a period of disability.

If you were granted a period of disability, the period of disability may affect the taxability of your tier 1 benefit. Refer to the section below and Form RB-1d, *Employee Disability Benefits*, for more information concerning a period of disability and the requirements for a period of disability.

- **Period of Disability Granted**

The entire tier 1 benefit is treated as an SSEB benefit from the point of the effective date of the period of disability plus a five month waiting period, if a period of disability is granted in the **same** tax year as the annuity beginning date (ABD) *or* if the period of disability is granted in a year **before** the ABD. In these instances, the entire tier 1 amount paid from that point on is treated as a SSEB benefit for taxation purposes and will be reported on an annuitant's annual tax statement Forms RRB-1099 (for annuitants taxed as citizens or legal residents of the United States) or RRB-1042S (for annuitants taxed as a nonresident alien). Please see Part 2: *Taxation of Railroad Retirement Annuities*, for more information regarding the taxability of the SSEB portion of a tier 1 benefit.

However, if an individual's period of disability began in a year **after** his/her ABD, a portion of the tier 1 benefit from the point of the effective date of the period of disability plus a five month waiting period, will be treated like SSEB benefits while the other portion may be treated like NSSEB benefits (contributory pension) for taxation purposes. The SSEB and NSSEB portions of tier 1 may affect the amount of any taxes withheld from the annuity. The annuitant will also receive a Form RRB-1099-R annual tax statement reporting the amount of the NSSEB portion of tier 1. Please see Part 2: *Taxation of Railroad Retirement Annuities*, and Part 3: *Employee Contributions*, for more information regarding the taxability of the NSSEB portion of tier 1, and tier 2.

- **Period of Disability Not Granted**

If you were **not** granted a period of disability and you are under age 60 with 30 years or more of service, **or** under age 62 with less than 30 years of service, your entire tier 1 is treated as NSSEB benefits for taxation purposes until minimum retirement age is attained. In these instances, the NSSEB portion of tier 1, and tier 2 are **fully taxable** from the ABD. When minimum

retirement age is attained, part of the NSSEB portion of tier 1, and tier 2 is tax free while the other portions of NSSEB and tier 2 are taxable. Please see Part 2: *Taxation of Railroad Retirement Annuities*, and Part 3: *Employee Contributions*, for more information regarding the taxability of the NSSEB portion of a tier 1 benefit, and tier 2.

For further information concerning disability annuities, periods of disability and eligibility requirements, get Form RB-1d, *Employee Disability benefits*, from any RRB field office.

Section 6B: Spouse, Divorced Spouse or Widow(er) with Child in Care

Under General Rule Provisions, for widow(er)s who were paid as a spouse for part of the year, *only* the annuity payments received as a widow(er) are used to compute the tax free portion of the annuity payments.

For a spouse or widow(er) under age 60 who has a child under the age of 16 in his or her care, the tier 1 portion of the railroad retirement annuity is considered all SSEB for Federal income tax purposes.

The tier 1 portion of the railroad retirement annuity is considered all NSSEB if the tier 1 is *not* payable under the rules established by the SSA. An example of tier 1 considered as all NSSEB occurs when the child under a spouse or widow(er)'s care turns age 16 and is not disabled. SSA would not pay this spouse or widow(er) a benefit, so the tier 1 the RRB pays is all NSSEB.

For annuitants under the General Rule provisions, the NSSEB/tier 2 components of a spouse annuity or the NSSEB component of a divorced spouse annuity are considered fully taxable from the annuity beginning date. No part of a spouse's NSSEB/tier 2 or a divorced spouse's NSSEB can be used toward recovery of the employee's contribution amount.

For more information concerning the General Rule, refer to Section 3C: *General Rule Method*.

Section 6C: Partition Payments

Railroad retirement annuities are subject to court approved partition payments. These payments are made to third party individuals.

A partition payment is based on a court decree of divorce, annulment, or legal separation, or on a court-approved property settlement, with which the RRB must comply. The portion of the railroad retirement beneficiary's annuity that can be subject to partition and paid to a third party are the special guaranty amount **or** the tier 2 component, the VDB, and supplemental annuity. For Federal income tax purposes, the partition amount is taxable to the third party payee and not to the railroad retirement beneficiary. The third party payee can elect tax withholding on the partition payment.

Section 6D: Garnishment Payments

Railroad retirement annuities are subject to court approved garnishment payments. These payments are made to third party individuals.

A garnishment is the result of a a legal proceeding, based on a court order, whereby a portion of the railroad retirement beneficiary's annuity is allotted to a third party as payment for alimony or child support. For Federal income tax purposes, the garnishment amount is taxable to the railroad retirement beneficiary and not to the third party payee.

Section 6E: Workers' Compensation Payments

Workers' compensation payments are made because of a work-related injury or disease. They are paid under a state or Federal Workers' Compensation Law or plan. Payments may be for

total or partial disability and paid on a temporary or permanent basis. The workers' compensation amount is usually based on a percentage of the worker's wages. Workers' compensation benefits are deducted from the railroad retirement annuity tier 1 payments. For Federal income tax purposes, the gross SSEB paid amount reported on Form RRB-1099 (for U.S. citizens) or Form RRB-1042S (for nonresident aliens) tax statements are **before** any workers' compensation offset. The taxable NSSEB amount is **after** any workers' compensation offset amount. The entire workers' compensation offset amount for the year is reported on the Form RRB-1099 or Form RRB-1042S tax statements for informational purposes. Also, there is no repayment credit for overpayments due to workers' compensation offset amounts.

PART 7 Annual Tax Statements

Section 7A: Railroad Retirement Annuity Payments

The Internal Revenue Code requires that an annual statement of benefits be released to each citizen beneficiary by January 31 and each nonresident alien beneficiary by March 15 of the year following the close of the tax year. The annual tax statement shows, as appropriate, the amount of benefits paid, the amount of benefits repaid, the total amount of Federal income taxes withheld, the employee contribution amount, the rate of tax, and the country of legal residence for the taxable year. The RRB also provides this information to the IRS.

You may receive more than one tax statement depending on the type of benefits paid. Each tax statement should be considered when you file your income tax return. If you receive a corrected tax statement, then do not use the original tax statement when you file your income tax return. If you are required to file an income tax return, a

negligence penalty or other sanction may be imposed on you if the income is taxable and the IRS determines that it has not been reported.

The RRB issues the following three basic tax statement forms to report annuity payments:

- Form RRB-1099;
- Form RRB-1042S;
- Form RRB-1099-R

The RRB issues annual **citizen** tax statements to citizens and/or legal residents of the United States, Guam, the U.S. Virgin Islands, the Northern Mariana Islands, and to citizens of Puerto Rico. A citizen's railroad retirement annuity is reported on Form RRB-1099 and/or Form RRB-1099-R. A citizen beneficiary will receive one of the following three possible tax statement combinations:

1. Form RRB-1099 only or
2. Form RRB-1099-R only or
3. Form RRB-1099 and Form RRB-1099-R

The RRB issues annual **nonresident alien** tax statements to individuals who are neither citizens nor legal residents of the United States, Guam, the U.S. Virgin Islands, the Northern Mariana Islands, nor citizens of Puerto Rico. A nonresident alien's railroad retirement annuity is reported on Form RRB-1042S and/or Form RRB-1099-R. A nonresident alien beneficiary will receive one of the following three possible tax statement combinations:

1. Form RRB-1042S only or
2. Form RRB-1099-R only or
3. Form RRB-1042S and Form RRB-1099-R

- **Form RRB-1099 (for U.S. Citizens)**

Form RRB-1099 is the tax statement which documents the SSEB portion of tier 1 and special guaranty information for citizens and/or legal residents of the United States, Guam, the U.S. Virgin Islands, the Northern Mariana Islands, and

citizens of Puerto Rico. SSEB benefits paid, repaid and Federal income taxes withheld are shown for the taxable year. Workers' compensation amounts are also shown on this tax statement. SSEB and special guaranty payments are similar to social security benefits and are treated as social security benefits for Federal income tax purposes as explained in Part 2, *Taxation of Railroad Retirement Annuities*.

- **Form RRB-1042S (for Nonresident Aliens)**

Form RRB-1042S is the tax statement which documents the SSEB portion of tier 1 and special guaranty information for nonresident aliens. SSEB benefits paid, repaid and U.S. Federal income taxes withheld are shown for the taxable year. Workers' compensation amounts, country of legal residence and the percentage rate at which U.S. Federal income tax was withheld are also shown on this tax statement. SSEB and special guaranty payments are similar to social security benefits and are treated as social security benefits for U.S. Federal income tax purposes as explained in Part 2, *Taxation of Railroad Retirement Annuities*.

- **Form RRB-1099-R (used for both U.S. Citizens and Nonresident Aliens)**

Form RRB-1099-R is the tax statement which documents the NSSEB portion of tier 1, and tier 2 (shown as the contributory amount paid), the vested dual benefit (VDB), the supplemental annuity, employee contributions, the percentage rate at which U.S. Federal income tax was withheld, and the country of legal residence. The total gross paid (sum of the NSSEB, tier 2, VDB and supplemental annuity paid amounts) is also shown on this tax statement. NSSEB, tier 2, VDB and supplemental annuity benefits paid, repaid and U.S. Federal income taxes withheld are shown for the taxable year. NSSEB, tier 2, VDB and supplemental annuity benefits are treated as contributory or non-contributory pensions for U.S. Federal income tax purposes as explained in Part 2, *Taxation of Railroad Retirement Annuities*.

General: The totals reported on the tax statements may **not** equal the total amount of railroad retirement annuity payments actually received by the beneficiary during the tax year. For beneficiaries receiving Medicare, the difference may be the total amount of Medicare premiums deducted from annuity payments during the tax year. The difference may be attributable to other offsets. **The total Medicare premiums paid during the tax year are not shown on any tax statement issued by the RRB.**

For Nonresident Aliens Only: If your country of legal residence changed **or** your rate of tax changed during a given tax year, you will receive more than one Form RRB-1042S and/or Form RRB-1099-R. If you were also a resident of the United States during a given tax year, you may receive Form RRB-1099 and/or Form RRB-1099-R, and be required to file Form 1040, *U.S. Individual Income Tax Return*. For additional information on filing requirements for nonresident aliens, get IRS Publication 519, *U.S. Tax Guide for Aliens*.

Section 7B: Waiver of Debts: IRS Form 1099-C

In addition to the tax statements mentioned above, you may receive IRS Form 1099-C, *Cancellation of Debt*, if at any time during the tax year you were granted a waiver by the RRB of an overpayment that was \$600.00 or more (includes overpayment principal, interest, penalties and administrative costs). IRS Form 1099-C is used to report the cancellation of overpayments of \$600.00 or more if they represent amounts that were not taxable when originally paid. In most cases, these are overpayments that occurred prior to 1984. The amount of the canceled debt is taxable in the year the debt is waived. For more information on IRS Form 1099-C, refer to the IRS publication entitled, *Instructions for Form 1099, 1098, 5498, and W-2G*. The RRB releases IRS Form 1099-C by January 31 of the year following the close of the tax year in which the overpayment was waived.

Section 7C: Social Security Benefits: Form SSA-1099 and Form SSA-1042S

If you receive social security benefits, you should receive tax statement Form SSA-1099 (for U.S. citizens) or Form SSA-1042S (for nonresident aliens) from the SSA. These tax statements are released in the year following the close of the tax year. If you have not received these forms or would like further information on these forms, you should contact the SSA.

PART 8 Additional Information

Questions about U.S. Federal income tax information and/or how to figure your taxable payments, should be referred to the local IRS office listed in your phone book. If you have any questions what amounts to show on your income tax returns, contact your own tax preparer or IRS office. However, questions about railroad retirement annuity payments should be referred to your local RRB field office. RRB field offices are open Monday through Friday (except U.S. Federal holidays), during normal business hours.

You may write us with your inquires at the following address:

**U.S. Railroad Retirement Board
844 North Rush Street
Attention: Inquiry & Annual Statements
(IAS) Section - 11th Floor
Chicago, Illinois 60611-2092**

In addition, you may E-Mail us with your inquiries at **taxation@mcs.com** and may visit us on the Internet at **http://www.rrb.gov**.

Refer to booklet TB-25, Tax Withholding and Railroad Retirement Payments, for more detailed information regarding tax withholding on railroad retirement payments.

Nondiscrimination on the Basis of Disability

Under Section 504 of the Rehabilitation Act of 1973 and Railroad Retirement Board (RRB) regulations, no qualified person may be discriminated against on the basis of disability. RRB programs and activities must be accessible to all qualified applicants and beneficiaries, including those who are vision or hearing-impaired. Disabled persons needing assistance should contact the nearest RRB office.

Complaints of alleged discrimination by the RRB on the basis of disability must be filed within 90 days in writing with the **Director of Administration, Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois 60611-2092**. Questions about individual rights under this regulation may be directed to the RRB's Director of Equal Opportunity at the same address.

Fraud and Abuse Hot Line

Call the toll-free **Hot Line** if you have reason to believe someone is receiving railroad unemployment or sickness benefits to which he or she is not entitled. The **Hot Line** has been installed by the RRB Inspector General to receive any evidence of fraud or abuse of the RRB's benefit programs.

The toll-free **Hot Line** number 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**. Please do **not** call the Inspector General's **Hot Line** with questions about eligibility requirements, delayed claims or similar problems. Such matters should be directed to the nearest RRB field office.

Computer Matching and Privacy Protection Notice

The Computer Matching and Privacy Act of 1988 requires the RRB to periodically advise you that information you have provided may be used, without your consent, in automated matching programs. These matching programs are a computer comparison of RRB records with records kept by other Federal, state, or local governmental agencies. Information from these matching programs can be used to verify a person's eligibility for federally funded or administered benefit programs and for repayment of payments or delinquent debts under these programs.

