



RRB News

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Year 2004 Railroad Retirement and Unemployment Insurance Taxes

The amounts of compensation subject to railroad retirement tier I and tier II payroll taxes increase in 2004. However, the tier I tax rate on employees and employers remains unchanged. Under the Railroad Retirement and Survivors' Improvement Act of 2001, tier II tax rates are determined annually, beginning in 2004, by an average account benefits ratio. Based on this ratio, the tier II tax rate on employees remains unchanged in 2004, but the tier II tax rate on employers decreases. Railroad unemployment insurance tax rates paid by employers will continue to include a surcharge in 2004, but at a lesser rate.

Tier I and Medicare Tax.--The railroad retirement tier I payroll tax rate on covered rail employees and employers for the year 2004 remains at 7.65 percent. The railroad retirement tier I tax rate is the same as the social security tax, and for withholding and reporting purposes is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of an employee's earnings subject to the 6.20 percent rate will increase to \$87,900 in 2004 from \$87,000 in 2003, but there is no maximum on earnings subject to the 1.45 percent Medicare rate. The increase in the amount of earnings subject to railroad retirement and social security taxes is based on indexing to increases in average national wages.

Tier II Tax.--The railroad retirement tier II tax rate on employees remains at 4.9 percent in 2004, but the rate on employers decreases by 1.1 percent, from 14.2 to 13.1 percent. The maximum amount of earnings subject to railroad retirement tier II taxes, however, will increase to \$65,100 in 2004 from \$64,500 in 2003. Tier II tax rates under the 2001 Railroad Retirement and Survivors' Improvement Act are based on an average account benefits ratio reflecting railroad retirement fund levels. Depending on this ratio, the tier II tax rate for employers can range between 8.2 percent and 22.1 percent, while the tier II rate for employees can be between 0 percent and 4.9 percent.

(More)

Unemployment Insurance Tax.--Employers, but not employees, also pay railroad unemployment insurance taxes, which are experience-rated by employer. The basic tax rates range from a minimum of 0.65 percent to a maximum of 12 percent on monthly earnings up to \$1,130 in 2004, up from \$1,120 in 2003. Surcharges of 1.5 percent or 2.5 percent are added to the basic tax rates for a calendar year, but do not increase the maximum 12 percent rate, if the railroad unemployment insurance fund balance is below certain indexed threshold amounts, but greater than zero, on the preceding June 30. If the account balance is less than zero on that date, a surcharge of 3.5 percent is added and the maximum rate is 12.5 percent. The 2.5 percent surcharge was applied in 2003; the 1.5 percent surcharge in effect in 2004 reflects an increase in the prior year account balance.

The unemployment insurance tax rates on railroad employers in 2004 therefore will range from 2.15 percent (the minimum basic rate of 0.65 percent plus the 1.5 percent surcharge) to a maximum of 12 percent on monthly compensation up to \$1,130.

The 1.5 percent surcharge will not apply to new employers in 2004, and new employers will initially pay a tax rate of 2.38 percent, which represents the average rate paid by all employers in the period 2000-2002.

For 71 percent of covered employers, the unemployment insurance rate assessed will be 2.15 percent in 2004.

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