

## **PART IV Reports of Creditable Service and Compensation**

### **CHAPTER 1: General Information About Types of Reporting Media**

Service and compensation may be reported by using one of following media:

- 3480 or 3490 compatible cartridge (preferably);
- conventional magnetic tape;
- 3½" floppy diskette;
- Transmission via the Advantis network. Call QRSC to obtain instructions for reporting via the network; (BA-4 only, at this time)
- Paper form.

Paper forms may be obtained by sending Form G-615, Employer's Supply Requisition, to the address shown on the form. You may photocopy the exhibit of Form G-615 to request your initial supply of the forms. Allow three to four weeks to receive the requested forms.

The instructions for completion of the paper forms are included on the forms themselves. The instructions for magnetic tape, cartridge, or disk reports are in Appendix I.

When using disks for reporting, data files must be submitted on 3½" disks in ASCII character format.

**Part IV, Chapter 2**

---

---

**CHAPTER 2: Filing Instructions for Form G-440, Report Specifications Sheet**

Every report, whether it is made using paper, magnetic tape, cartridge, or disk media, must be accompanied by a completed and signed Form G-440, Report Specifications Sheet. This is your certification that the data furnished is correct. See the exhibits for a sample.

Proper completion of Form G-440 is vital to the correct processing of the report. The correct entry of assigned employer BA numbers for all subsidiaries included in the report will prevent the release of a delinquent notice Form GL-131. Form G-440 is used to verify receipt of an annual report. Therefore, it is necessary to list all BA numbers included of all employers on a tape, cartridge, or disk report.

Employers using magnetic tape or cartridge should make sure the reel or cartridge number is entered in the appropriate item, the corresponding reel or cartridge is labeled, and the tape or cartridge has a standard IBM format header label.

**Recapitulation Sheet**

On the reverse side of Form G-440 is the Recapitulation Sheet used for entry of report totals. The compensation totals are used to verify that the report processed correctly. The report totals must be completed for paper and diskette reports. If your magnetic tape or cartridge report includes report totals, you are not required to also provide that information on the Recapitulation Sheet. Although not required, you may wish to complete this section for all reports as an added check. The Sub-total Record and Grand Total Record formats are in the Appendix.

1. Check Only One Box - Check the box that corresponds with the form that you are submitting.
2. Page # - Enter the page number of the report you are recapping. The maximum number of report pages for a recapitulation sheet is 15. If more than 15 pages are being recapped, use more than one recap sheet and enter the grand total in Item 6.
3. Record Count - Enter the total number of lines used on each page of the form you are recapping. For example, if there are 10 employees included on the form you are submitting, the record count should correspond. If an employee appears on an adjustment report for more than one year, count each line item, not each employee.
4. Compensation Totals - Enter the compensation totals from the bottom of the report form. In the 5th and 6th columns, check the box that corresponds to the type of compensation. If the type of compensation is sick pay or miscellaneous compensation, also check the box to indicate if this is a Tier I increase or decrease.
5. Record Totals - Enter the totals for each column.
6. Grand Totals - In the top right-hand corner of the Recapitulation Sheet, you will see **Page** \_\_\_ **of** \_\_\_. If more than one page is needed to do your **recap**, fill in the Grand Totals on the last

page of the report (i.e. Page 5 of 5).

**Form BA-3a, Annual Report of Creditable Compensation**

Form BA-3a is used to report increases only in the compensation amounts. Therefore, the recapitulation sheet is limited to entries in Items 1, 2, 3, and the three increase columns under Item 4. See Example 1 at the end of this section.

**Form BA-4, Report of Creditable Compensation Adjustments**

Form BA-4 may be used to report increases or decreases in the adjustment amounts. The recapitulation sheet may have entries in all items and columns. See Example 2 at the end of this section.

---

**Part IV, Chapter 3**

---

**CHAPTER 3: Filing Instructions for Service and Compensation Annual Reports**

Each employer is required by law to submit an annual report of the creditable service and compensation for each employee who performed compensated service in the preceding year. See Section 9 of the Railroad Retirement Act, Section 6 of the Railroad Unemployment Insurance Act, and Section 209.6 of the Railroad Retirement Board's (RRB) Regulations (20 CFR 209.6). Each year employers are reminded of this requirement.

**Time Limits**

Annual reports for a calendar year, with an accompanying Form G-440, are due at the RRB by the last day of February the following year. Because the receipt of annual reports is monitored by an automated control system, employers will receive a delinquent notice, Form GL-131, generated by this system, approximately two weeks after the due date. If the report is not received at the RRB within 30 days of the delinquent notice, employers will be sent a final notice, Form GL-130, usually by Certified Mail.

Under the Railroad Retirement Act, failure to comply within 30 days of this final notice will ultimately result in a referral to our Deputy General Counsel for the issuance of a subpoena to secure the information. Under Section 209.2(d) of the RRB's Regulations (20 CFR 209.2(d)), the RRB may impose fines for continued failure to comply with the regulations.

**Filing Requirement for 250 or More Employees**

Effective with the 1997 service and compensation reports due February 28, 1998, the RRB is requiring employers that report for 250 or more employees to report on magnetic media. However, we encourage those employers with fewer than 250 employees to follow this guidance as well to increase accuracy, efficiency, and decrease costs. The following are acceptable forms of magnetic media: magnetic tape, cartridge, or 3.5" floppy diskettes. See the Appendix I for instructions on how to properly format the data.

**Final Reports**

If a covered railroad union goes out of business or ceases to be a covered employer for any reason, a final report of creditable service and compensation must be submitted. Section 209.9 of the RRB's Regulations (20 CFR 209.9) states that the final report must be submitted on or before the last day of the month following the final month in which there was compensated service. The report should be completed as usual and marked "Final Compensation Report" in the remarks section at the bottom of the G-440, Report Specifications Sheet.

Once the Railroad Retirement Board receives a "Final Compensation Report", it is forwarded to the Audit and Compliance Section. They will then conduct an investigation to determine if the employer's status should be terminated.

**Daily Pay Rate**

Employers' annual reports should include an employee's last daily pay rate. The daily pay rate is used in determining the employee's benefit rate under the Railroad Unemployment Insurance Act (RUIA).

Failure to report a daily pay rate may result in an employee receiving the minimum RUIA benefit rate until such time as the actual daily pay rate is verified.

An employee's daily pay rate is the basic rate of pay for the last regular job worked for the compensation year. If the employee's daily pay rate is equal to or greater than \$99.99, report \$99.99. The pay rate includes cost-of-living increases but does not include overtime, arbitrary payments, or special allowances.

Pay, other than on a daily basis, may be converted as follows:

- hourly rate x 8; or
- monthly rate ÷ 21.75; or
- (annual rate ÷ months employed) ÷ 21.75; or
- for mileage rated employees, the rate of pay for the number of miles constituting a basic day as prescribed by the agreement.

## **PART V Reports Related To Service and Compensation**

### **CHAPTER 1: Form AA-12 Notice of Death and Statement of Compensation**

Form AA-12, Notice of Death and Statement of Compensation, is one of two employer earnings reports known as lag reports. The two lag reports are used solely for processing pending railroad retirement benefit claim applications. A completed lag report is not posted to the employee's master record.

Form AA-12 is a lag report for survivor claims. The other lag report, Form G-88a, is for retirement claims and is described in the next chapter.

#### **Lag Service and Compensation**

"Lag" refers to creditable service and compensation not yet on the employee's record because the employer's annual report of service and compensation for the current or prior calendar year is not yet due and the report is not filed. A lag report would ordinarily be requested only while the annual report information is outstanding. The due date for an annual report is February 28 for the preceding calendar year.

Usually lag service and compensation is current year service and compensation, but it may refer to the prior year's service and compensation or to both the prior and current calendar years' service and compensation.

#### **Current Year Example**

Sam worked January through May 15. He died May 25. Sam's lag period includes service and compensation from January 1 through May 15 of the current calendar year.

#### **Prior Year Example**

John worked an entire calendar year through December 31, then retired. John's lag period was for the prior calendar year.

#### **Both Current Year and Prior Year Lag Example**

Mary Carol worked an entire calendar year and through January 22 of the following year. She died January 25. Mary Carol's lag period was for the prior calendar year and the current year.

**Part V, Chapter 1**

---

---

**Lag Reports are Interim Reports**

The information on a lag report is not posted to an employee's master service and compensation record. It is necessary that all service and compensation be included in the annual report for that year even though a lag report may have been previously submitted. The principles and guidelines for reporting lag service and compensation are the same as those used for the annual reports. This means that the information provided on lag reports should be consistent with the service and compensation data later provided on that year's annual report. For this reason, the person completing lag reports should be familiar with the principles of reporting service and compensation.

However, lag reports are completed with information available at the time, while the annual report is completed with information at the end of the year. Because the information is more complete at the end of the calendar year, the annual report information is considered to be the correct service and compensation if discrepancies exist between a lag report and an annual report.

**The Importance of Form AA-12**

Form AA-12 is used to obtain a report of lag service and compensation from the last employer of a deceased employee. Failure to file Form AA-12 timely may result in delays in payment of benefits to survivors.

The “**Important Note**” instruction, contained in the body of the form, informs the certifying official not to report service months after the month of an employee's death. Recall from Part II, Chapter 2 that an employment relation ends at death. See the exhibits for a sample of Form AA-12.

Any questions about the AA-12 should be directed to a reporting specialist in the Quality Reporting Service Center.

## **CHAPTER 2: Form G-88A Retirement Contact Form**

Form G-88a, Retirement Contact Form, is sent to an employee's last railroad employer for three reasons:

to notify you that an employee has filed for a railroad retirement annuity;

to establish service months data, including possible deemed service, when lag service is needed to establish retirement annuity eligibility; and

to request that you verify certain dates in your records so that we may establish an annuity beginning date.

Correct and return this form to the Railroad Retirement Board if the date in items 11 or 12 is incorrect, whether or not item 14 is checked. Always verify the dates in items 11 and 12. If box 15 is marked, also complete that item and return the form. Failure to return Form G-88a timely delays the commencement of retirement benefits. As with Form AA-12, the service and compensation information shown on the form must also be included in your annual report. This is necessary because Form G-88a is an interim-year report. The final annual report often includes payments made after completion of the Form G-88a. Earnings reported on Form G-88a are used solely to determine deemed service months. The lag year earnings amount is considered into the annuity benefit payment amount only after the annual report is filed. Instructions about how to complete Form G-88a are in the form exhibit.

See also Part III, Chapter 7 about completing Form G-88a when the lag service and compensation represent a pay for time lost allocation.



**Part V, Chapter 3**

---

---

**CHAPTER 3: Form DC-1 Employer's Quarterly Report of Contributions Under the RUIA**

Employers must submit Form DC-1, Employer's Quarterly Report of Contributions under the Railroad Unemployment Insurance Act (RUIA) and remit contributions (taxes) to the Bureau of Fiscal Operations (BFO) of the Railroad Retirement Board (RRB). Instructions, including due dates for each quarter, are on the reverse side of the form.

---

The RUIA tax liability is based upon the sum of the RUIA compensation reported to the National Reporting Officer on Forms OE-1 and the RUIA compensation of grand lodge employees. Recall from Part III, Chapter 3 that compensation paid to local lodge employees is excluded from the provisions of the RUIA.

Employers must use the Automated Clearing House (ACH) system to electronically deposit railroad unemployment insurance contributions. Forms necessary to register as a participant in the ACH system may be obtained from the BFO.

The total creditable compensation under the RUIA reported to the Compensation and Employer Services Section for your employees for a calendar year should be consistent with the total taxable compensation reported to BFO on Forms DC-1 for a calendar year.

**RUIA Contribution Rates**

As mentioned in Part I, Chapter 4, each employer has an individual RUIA contribution rate which is experience rated. An employer's RUIA contribution rate is established annually by the RRB's Office of Programs. The telephone number for the Experience Rating Specialist is in Appendix II, Jurisdiction Guide.

**Errors, Penalties, and Interest**

Errors affecting Form DC-1 discovered after the forms have been submitted to the RRB are to be adjusted on a subsequent DC-1. Questions about the form and the payment of contributions should be directed to BFO. The telephone number for the Bureau of Fiscal Operations is in Appendix II, Jurisdiction Guide.

The penalty for late submission of Form DC-1 is 5 percent a month, up to a maximum of 25 percent. The interest charge for delinquent remittance of contributions is 1 percent a month.

---

**CHAPTER 4: Form BA-11, Gross Earnings Report**

Each employer is required by law (20 CFR 209.12) to report the gross earnings for each employee on the payroll whose social security number ends with the digits "30". Gross earnings consist of all earnings taxable under the hospital insurance portion of the Tier I tax rate, including earnings above the annual taxable limit, sick pay, and miscellaneous compensation.

**The Purpose of the Gross Earnings Report**

The data collected in the gross earnings report for a sample of employees is used to estimate future tax income and to compute taxes owed for the financial interchange between the railroad retirement and social security/Medicare programs.

**Due Date and Frequency of Reports**

Gross earnings are to be reported for the same time periods as used in determining the employer's annual report of creditable service and compensation (Form BA-3a). The gross earnings report for the preceding calendar year is due the last day of February. Gross earnings reports must be accompanied by Form G-440, Report Specifications Sheet.

All employers are to submit their reports annually. Employers with 5,000 or more employees on their payroll during the year shall provide a monthly or quarterly breakdown of the year's earnings. Employers with fewer than 5,000 employees may submit only an annual amount, although a monthly or quarterly breakdown is preferable.

Employers who have no employees with social security numbers ending with the digits "30" should submit Form BA-11 stating "no employees to report."

**Report Media Options**

Employers have the option of reporting by one of the methods explained in Part IV, Chapter 1. Employers who are not able to submit their reports on magnetic tape or tape cartridge, or who have few employees to report, may submit PC diskettes, computer printouts or paper Form BA-11. The computer printout reports must include all of the data shown in the same sequence; that is, the year of the report, employer identification number, employee's social security number, first five letters of surname, initials, and the monthly, quarterly, or annual gross earnings amounts (dollars and cents).

**Part V, Chapter 4**

---

---

**Common Errors to Avoid**

Do not limit the amounts in the gross earnings report to the annual Tier I or Tier II creditable maximum amounts for the year. Neither should the gross earnings amount reported for an employee be less than the Tier I amount reported on the annual compensation report for the employee for the same year.

The gross earnings report and the annual report of creditable compensation must both be on the same basis, either "when paid" or "when earned."

Be sure to include in the gross earnings report any new employees hired in a year with a "30" social security number.

Be sure to list all subsidiary BA numbers included in the gross earnings report on Form G-440, even if one or more BA numbers have no employees with a "30" social security number.

The BA number used for the gross earnings report should be the same BA number used on the annual compensation report.

**For Help with Gross Earnings Reports**

Employers who have difficulty with any of the Labor Reporting Instructions for gross earnings reports should contact the Division of Benefit and Employment Analysis in the Bureau of Actuary for assistance. See the Jurisdiction Guide in Appendix II.

**CHAPTER 5: Form CT-1 Employer's Annual Railroad Retirement Tax Return**

Each system unit and local lodge unit must file an annual tax return, Form CT-1, Employer's Annual Railroad Retirement Tax Return, with the Internal Revenue Service (IRS). All Forms CT-1 are filed at the Kansas City Service Center of the IRS because railroad retirement tax operations are centralized there. The due date for the Form CT-1 is the same as for the Railroad Retirement Board's (RRB) Form BA-3a: the last day of February for the preceding calendar year.

**Note:** The grand lodge may choose to file one Form CT-1 with the IRS for all units.

**IRS/RRB Jurisdiction Coordination**

The IRS and the RRB have coordination procedures for their respective functions in connection with railroad retirement. A copy of each employer's completed Form CT-1 is sent to the RRB for tax reconciliation with that employer's reported creditable compensation for the year.

Form CT-1 is also used to report the amount of Medicare tax paid, but there is no corresponding employee earnings report which must be filed with the RRB for payment of the Medicare tax.

Representatives from the RRB have no authority to give definitive answers to railroad retirement tax questions. Questions about railroad retirement taxes or completion of Form CT-1 may be directed to a Quality Reporting Service Center reporting specialist at the RRB. However, it may be necessary for them to refer you to an IRS railroad retirement tax specialist for the answers to some questions about railroad retirement taxes.

**Obtaining Form CT-1**

Form CT-1 is an IRS form, not an RRB form. Form CT-1 and its separate instructions are released to employers by the IRS in December. If you do not receive a Form CT-1 by December 31, contact your local office of the IRS. If the IRS office refers you to the RRB to obtain a Form CT-1, please advise them that Form CT-1 is a form of the IRS, not the RRB. If you are still unable to obtain Form CT-1, contact the Quality Reporting Service Center at the number shown on the title page.

**Tax Deposits**

Railroad retirement tax deposits are made to an authorized financial institution or a Federal Reserve bank or branch, not to the IRS directly or to the RRB.

**Note:** Do not use Form CT-2, Employee Representative's Quarterly Railroad Retirement Tax Return, to make deposits. Form CT-2 is used to deposit taxes by employee representatives, a unique category of individuals. An "employee representative" within the meaning of the Railroad Retirement Act does not refer to an employee of a national rail labor organization employer.

In general, the amount of taxes owed by a unit determines the schedule for frequency of deposits. Under the rules for determining the deposit schedule, a unit is either a monthly or semi-weekly depositor. The IRS will notify a CT-1 filer each November what the deposit status is for the coming calendar year, based on the total Railroad Retirement Tax Act (RRTA) taxes reported on the Form CT-1 for a calendar look-back period. This look-back period is the second calendar year preceding

**Part V, Chapter 5**

---

---

the current calendar year. The deposit rules and exceptions are in the Form CT-1 instructions. The handbook for Form OE-1 and Form OE-1a also have instruction about how units may use the tax calculation worksheets in the handbooks to calculate their periodic tax liability and complete Forms CT-1.

The law provides penalties for late filing of Form CT-1, late payment of taxes, and late deposits. Interest is charged on taxes paid late at the rate set by law.

**Supplemental Tax**

In addition to Tier I and Tier II railroad retirement tax, employers are required by the RRTA to pay a cents-per-hour tax known as the supplemental tax for each work-hour in which compensation is paid to employees. The supplemental tax income is used to finance the supplemental annuity program for career railroad employees. By law, labor employers must pay the supplemental tax whether or not their employees are covered by a supplemental pension plan. The supplemental tax is paid on the total work-hour earnings without annual limitations. **Earnings from a local under \$25 per month** are still subject to conversion to work hours for supplemental.

The tax rate is determined quarterly by the RRB. A notice is sent to National Reporting Officers in December, March, June, and September advising of the supplemental tax rate for the forthcoming quarter. The tax rates are also on the RRB's web site. NROs should promptly advise the units if the quarterly supplemental tax rate changes so that the units make proper tax deposits. The tax calculation worksheet in the Form OE-1/1a handbooks assumes that one supplemental tax rate is applicable for the entire calendar year.

The supplemental tax is reported on Form CT-1. Separate deposit rules apply to the supplemental tax. See the Form CT-1 instructions for details. The instructions for the Form CT-1 describe how to compute work hours for the purpose of determining the supplemental tax due. Work hours are not reported to the RRB.

**Safe Harbor Election**

Instead of determining the actual number of work hours subject to the supplemental tax, you may elect to count the number of employees who received any compensation during the month and multiply that figure by a set number of hours to determine the number of work hours subject to the supplemental tax for that month. This method is known as the safe harbor method.

While administratively easier, the safe harbor method is generally **not** a cost-effective method of computing supplemental tax liability for rail labor organization units. If you choose to use the safe harbor method, you must elect it by marking the box on Form CT-1 indicating you will use it the next year. The Form CT-1 instructions provide more detail about the safe harbor election.

**CHAPTER 6: Form W-2, Wage and Tax Statement****Form W-3, Transmittal of Income and Tax Statements**

The above forms are Internal Revenue Service (IRS) forms which are filed with the Social Security Administration (SSA). The IRS receives this information from the SSA for federal tax data purposes.

Employers must file Forms W-2 and W-3 annually. In addition, Form 6559, Transmitter Report and Summary of Magnetic Media, is filed for magnetic reports of Forms W-2. Instructions for completion are on the back of the form. Instructions for filing magnetic media W-2 reports are issued by SSA in its publication "Magnetic Media Reporting" (TIB-4).

If you submit Form W-2 data on magnetic media, do not submit the same W-2 data to SSA on paper forms.

**Proper Completion of Forms W-2/W-3 Prevents Duplicate Earnings**

Duplicate earnings are annual earnings that are erroneously posted as social security wages on an employee's record at SSA from the W-2 data and correctly posted on the corresponding employee record at the Railroad Retirement Board (RRB) from Form Ba-3a, Annual Report of Creditable Compensation. Duplicate earnings overstate an employee's lifetime earning record, thus creating the potential for a benefit overpayment when a railroad retirement or social security benefit is paid to that individual. Correct completion of Forms W-2/W-3 is important in preventing duplicate earnings and correctly crediting an employee's earnings record.

The key concept in preventing duplicate earnings is to correctly identify the type of employment on Form W-3 for the accompanying W-2 data. It is important that employers covered under the Railroad Retirement Act (RRA) mark the correct box in the "Kind of Payer" block of the Form W-3. "CT-1" is the only box which should be marked. For magnetic media reports, railroad employees should be reported with an "X" in the type of employment field of the code E record.

Whether reporting by paper or magnetic media, railroad employees should not have their railroad retirement tax reported as social security tax, nor their railroad earnings reported as social security wages. Dollar amounts reported on Forms W-2 should balance with those on Form W-3.

The Forms W-2/W-3 example at the end of this chapter illustrates the correct completion of the forms for employees covered under the RRA. On Form W-2 make no entries in boxes 3, 4, 5 and 6. The corresponding boxes on Form W-3, 3, 4, 5, 6 and 7 should also be blank for RRA employees.

**Part V, Chapter 6**

---

---

**Avoid a Common Error**

A common error for railroad employers is to enter the Medicare tax amounts withheld in the Medicare tax withheld block - an understandable error since Medicare taxes have been paid. However, the Medicare box is for employees covered under the Social Security Act (SSA). If the Medicare box is completed, the Social Security Administration looks for corresponding social security taxes. Because railroad employers correctly do not make entries for social security wages, this creates a discrepancy which must be resolved.

**Include Railroad Retirement Tier I and Tier II Taxes on Form W-2**

In accordance with the Social Security Administration's instructions for completion of Form W-2, employers covered under the Railroad Retirement Tax Act must show, in Box 14, Tier I and Tier II tax withheld. You may also include optional information such as Medicare tax, Tier I, and Tier II compensation in Box 14.

**Segregating Railroad Retirement Employees and Social Security Employees**

If you also have employees covered under the Social Security Act by virtue of the segregation of your rail labor union business as set forth in Section 202.3 of the RRB's Regulations, separate forms should be filed for the employees of your separate non-rail labor unit. For employees who work in two positions, one covered by RRA and the other covered by SSA, issue these employees separate Forms W-2 for each position.

Employees covered under the SSA should be reported following a Code E record containing either an "A", "Q", or "R" (see the specification booklet to determine which is appropriate) in the type of employment field.

If you determine your Forms W-2/W-3 contain an error and railroad earnings may have been processed as social security wages, contact the local SSA office for advice.

**SSA Magnetic Media Form W-2 Enhancement**

SSA has created, and is continuously updating, a list of Employer Identification Numbers (EIN) that belong to employers covered under the RRA. This list of EINs is compared to the EIN in the Employer record (code E) of each Form W-2 magnetic media report which SSA receives. If a match is made, SSA will check to ensure that the report has a type of employment code "X" for railroad and that the Employee records (code W) have zeroes in all the social security and Medicare fields.

This processing is ideal for employers who either have no employees covered under SSA or have segregated their rail labor union business as a separate employer with a separate EIN from their non-rail labor business. The processing will help ensure that RRA W-2 reports and SSA W-2 reports are completed and processed correctly.

Employers who have the same EIN for their segregated rail labor union business and non-rail labor business cannot participate in this enhanced processing. Once an EIN has been included in SSA's program and specified as RRA earnings, SSA wages cannot be reported under this EIN. Employers can request SSA to issue separate EINs for rail labor union business and non-rail labor business.

**How to Participate in the Enhancement Processing**

Contact a Railroad Retirement Compensation Specialist at (312) 751-4992 for a certification form. If you have questions about how the EINs will be used in the processing at SSA, contact SSA at (410) 965-7068.

**IRS/RRB/SSA W-2/W-3 Jurisdiction**

Representatives from the RRB have no authority to give definitive answers to Forms W-2/W-3 questions. Questions concerning the completion of Forms W-2/W-3 may be directed to a Compensation Reporting Specialist at the RRB. However, it may be necessary for them to refer you to an IRS or SSA W-2/W-3 Specialist for answers to some questions.



**Part V, Chapter 7**

---

**CHAPTER 7: Supplemental Annuity Work Hour Tax**

A railroad retirement supplemental annuity program is financed on a pay-as-you-go basis. The supplemental work hour tax, also referred to as supplemental tax, funds the payment of supplemental annuities. This chapter provides 1) general information about the supplemental annuity; 2) how the supplemental work hour tax is determined, deposited, and reported; 3) who is entitled to a supplemental tax credit and how it is handled; 4) who is to reimburse the RRB on an actual expense basis and how it is handled; and 5) how to complete supplemental annuity forms and reports.

**Who is Eligible for a Supplemental Annuity**

A railroad retirement supplemental annuity can be paid to a retired employee who has at least:

25 years of railroad service with at least one month of service before October 1981; and who is entitled to a railroad retirement annuity; and had a current connection with the railroad industry on the annuity beginning date.

The supplemental annuity can begin as early as:

age 60, if the employee has at least 360 months of creditable railroad service; or, age 65, if the employee has 300-359 months of creditable railroad service.

Supplemental annuities range from \$23 through \$43 depending upon the employee's years of service in the railroad industry. A supplemental annuity is reduced if the employee receives a benefit from a railroad employer pension that is based on employer contributions. Supplemental annuities are not payable to spouse or survivor annuitants.

**Relationship between Supplemental Annuity and Supplemental Tax**

**Tax** Labor employers pay a work-hour tax under 26 USC 3221 of the Internal Revenue Code. Employees do not pay supplemental tax.

**Earnings Base** The earnings subject to supplemental tax do not provide any base from which the annuity is determined.

**Benefits**

The gross supplemental annuity rate is based on an individual's years and months of creditable railroad service. The minimum gross rate is \$23 for 25 years of railroad service. An additional \$4 is added for each full year of railroad service over 25 and up to 30. The maximum supplemental annuity is \$43 for employees with 30 or more years of railroad service. This amount may be reduced by an employer pension, as explained below.

**Supplemental Annuity Work-Hour Tax****Definition of Work Hour**

The "work hour" is defined in the regulations of the Internal Revenue Service and included with the Form CT-1 instructions. To calculate your supplemental tax, multiply the work hour tax rate by either the actual number of work hours or the number determined under the "safe harbor." Both of these methods are described below. The RRB determines the work hour tax rate each quarter and notifies employers before the beginning of the calendar quarter via a circular letter.

**Determining Actual Number of Work Hours for Work-Hour Tax**

IRS regulations state that, for the purposes of the supplemental annuity work-hour tax, work-hours include regular time worked; overtime; time paid for vacations and holidays; time allowed for meals; away from home terminal time; called and not used, runaround, and deadheading time; time for attending court, participating in investigations, and attending claim and safety meetings; and guaranteed time not worked.

Work hours also include conversion hours. Conversion hours are hours converted from payment by the mile. Work hours also include time for which the employee is paid for periods of absence not due to sickness or accident disability, such as for routine medical and dental examinations or pay for time lost.

Certain kinds of payments are specifically excluded from the definition of compensation and are not subject to the work-hour tax. Excluded are sick pay and reimbursements for medical, business, or travel expenses. Also excluded from the work-hour tax are tips, bonuses, amounts received pursuant to the exercise of an employee stock option, and all separation payments or severance allowances.

**Alternative Safe Harbor Method**

For calendar years after December 31, 1993, IRS regulations provide an alternative, safe harbor, method of computing the number of hours subject to the work-hour tax. Under the safe-harbor method of computing the work hours for the supplemental annuity tax, each individual who is paid compensation in a calendar month is counted, even if the individual is a part-time, temporary, or seasonal employee. The number of employees is multiplied by the safe-harbor number of hours, which is currently 164. The result is your total number of work hours for that month.

While administratively easier, the safe harbor method is generally not a cost-effective method for rail labor organizations to use to compute their supplemental work-hour tax. If you elect to use the safe-

**Part V, Chapter 7**

---

harbor method, you must use it for all of your employees for the entire calendar year, including part-time and temporary employees. To elect the safe harbor for the next calendar year, check the appropriate box on Form CT-1, Employer's Annual Railroad Retirement Tax Return, for the previous calendar year. You cannot elect the safe harbor method for the year of your return.

**Supplemental Annuity Tax Deposits**

The Internal Revenue Service establishes the requirements for deposits of taxes due under the Railroad Retirement Tax Act and issues instructions to employers along with Form CT-1. The IRS is the final authority for answers to questions about deposits. The following information is current as of the effective date shown above and is intended as general information.

Deposit supplemental annuity work-hour tax with an authorized financial institution or a Federal Reserve bank or branch. The schedule of deposits for supplemental tax differs from the schedule for tier tax. The supplemental tax is due the 16th day of the month following the month for which the work hours are determined. This schedule applies, even when the employer is required to make bi-weekly deposits of the Tier I, Tier II, and Medicare tax. The monthly deposit amount can be adjusted for any estimated supplemental annuity tax credits that may have been sent to you at the end of the calendar quarter. To avoid a tax penalty, the supplemental annuity work-hour tax payments should be within 98 percent of the actual amount that will be due at the end of the calendar quarter.

**Definition of Employer Pension which will Reduce the Supplemental Annuity**

Employer pensions paid by labor organizations to their employees or employee representatives were deliberately excluded from the legislation that established the reduction to the supplemental annuity under Section 2(h)(2) of the Railroad Retirement Act. These labor organization pensions do not cause a reduction to the RRB supplemental annuity. Labor organizations do not report these pension to the RRB.

The RRB supplemental annuity is reduced if the employee receives a separate pension benefit from a railroad employer that includes contributions to the pension trust fund from the railroad.

“Employer pension” is a pension, other than railroad retirement benefits, provided to the employee by the railroad employer and which is based wholly, or in part, on employer contributions. Employer contributions do not include any amount that is deducted from the employee's payroll or any contributions to the pension trust fund made by the railroad in lieu of a wage increase under provisions of a collective bargaining agreement.

The type of employer pension plan that results in a reduction to the supplemental annuity is basically:

A written plan or agreement which is communicated to the employees to whom it applies; and

An established plan maintained by a railroad employer for a defined group of employees which provides for the regular payment of benefits to employees under a set formula over a period of years.

**Supplemental Annuity Tax Credits**

Labor organizations do not receive supplemental annuity tax credits. Supplemental annuity tax credits are due under Section 3221 of the Internal Revenue Code for any month for which an

employee's supplemental annuity is reduced for an employer pension that is not based on a collective bargaining agreement. The supplemental annuity tax credit allowed is equal (dollar for dollar) to the amount of the reduction in the employee's supplemental annuity for the employer pension. No supplemental annuity tax credit is allowed for any month before the supplemental annuity beginning date or any month in which the supplemental annuity is not payable because the employee worked in railroad service.

If the employee worked part time for the labor organization and, after retirement, the employee's supplemental annuity is reduced to zero because of receipt of a railroad pension, no adjustment is due to the work-hour tax paid for the part-time employment with the labor organization.

### **Supplemental Annuity Tax Liabilities**

Labor organizations do not incur liability for the special supplemental tax under Section 3221(d) of the Internal Revenue Code.

Railroad employers may be exempt from the supplemental annuity work-hour tax if their employees are covered under an approved employer pension plan that is established by a collective bargaining agreement. Instead, they are billed for the cost of the supplemental annuities paid to your employees who have retired as provided under Section 3221(d) of the Internal Revenue Code. This Supplemental Annuity Tax Liability, also referred to as a Special Supplemental Tax, is equal to the amount of the supplemental annuity being paid, plus a percentage for administrative costs.

These collective bargaining pensions must be funded, in whole or in part, by contributions from the railroad employer. They may also include employee contributions. They are not funded by labor organizations and are not considered labor organization pensions.

---

**Part V, Chapter 8**

---

**CHAPTER 8: Railroad Retirement Tier I Tax On RUIA Sickness Benefits****Legislative Provisions**

Amendments to the Social Security Act in 1981 provided that certain sick pay is subject to social security taxes. The legislation was enacted to help fund social security minimum benefits. Because the Tier I portion of a railroad retirement benefit is generally equivalent to a social security benefit, the legislation also amended the Railroad Retirement Tax Act. The legislation provided that certain railroad sickness insurance benefits paid after December 31, 1981, are subject to railroad retirement Tier I and Medicare taxes. Included are supplemental sickness benefits paid under approved nongovernmental plans. Both the employee and the employee's last railroad employer are required to pay the Tier I tax on sickness benefits.

Sickness benefits are taxable and creditable only as Tier I compensation: The payment of taxable sickness benefits does not result in creditable service months.

**RRB Deducts Tier I Taxes from RUIA Benefits**

Sickness benefits under the Railroad Unemployment Insurance Act (RUIA) are subject to Tier I taxes if: the benefits are paid before the end of the 6-month period immediately following the month in which the employee last worked, and

the benefits are paid for a reason other than an on-the-job injury.

**Determination of Taxable Period**

Sickness benefits paid to an employee are subject to Tier I taxes only if paid before the end of the 6-month period immediately following the month in which the employee last worked.

**Examples of Taxable Period:**

1. Employee A became sick on May 15. The taxable period begins on May 15 and ends on November 30, the last day of the sixth month following the month in which he last worked.
2. Employee B is furloughed on March 15 and begins claiming unemployment benefits. On August 25, she is injured in an off-duty car accident. The taxable period begins March 15 and ends September 30, the last day of the 6-month period following the month in which she last worked.
3. Employee C breaks her ankle playing softball after work on September 3. She returns to work November 15. On December 7, she becomes ill. Benefits paid September 3 through March 31 for the ankle injury are taxable because the benefits are paid within the 6-month period following September. Benefits paid December 7 through June 30 for the illness are taxable because they are paid within the 6-month period following December. Thus, all benefits paid from September 3 through June 30 are taxable.

**Benefits Paid After End of Taxable Period**

Benefits for days of sickness within the taxable period that are *paid* after the end of the period are not taxable. The date of payment, rather than the date of sickness, is controlling.

**Example:** Employee D last worked and became ill on January 8. She is not qualified for benefits until July 1. The taxable period is January 8 through July 31. She applies for benefits in July. Her first compensable claims are processed on August 1, resulting in the payment of benefits for days in the period July 1 through July 28. Although benefits are payable for days within the taxable period, taxes are not withheld because the benefits are paid after the taxable period ended.

**Payment of Taxes- Employer**

The RRB notifies railroad employers each month by Form Letter ID-6 of the amounts of benefits paid subject to Tier I tax. The notice contains a list showing 1) the gross amount of taxable sickness benefits paid to each employee, 2) the amount of the Tier I tax withheld by the RRB, and 3) the applicable month and year. Upon notification by the RRB, the railroad is responsible for payment of the employer portion of the Tier I railroad retirement tax. The employer should remit its share of taxes to the Internal Revenue Service (IRS), unless the carrier has already paid the maximum Tier I creditable compensation for the employee for the year. In such a case, the employer should remit the employer share of Medicare tax.

Employers should report their matching Tier I tax payments on Form CT-1 filed with the IRS. Instructions and examples on how to complete Form CT-1 for creditable sickness benefit payments are included in the *Reporting Instructions for Creditable Sickness Payments*.

**Payment of Taxes- Employee**

The Railroad Retirement Board (RRB) withholds the employee Tier I taxes from sickness benefits and remits the taxes on a daily basis to the IRS. The RRB files Form CT-1 with the IRS to report employees' Tier I taxes on sick pay. The RRB also completes Form BA-10, Report of Miscellaneous Compensation and Sick Pay, in order to credit employees' service and compensation records with the creditable sickness benefits paid under the RUIA.

**Recovery of Sickness Benefits**

When sickness benefits are paid, Tier I tax is deducted from the gross amount payable. The deducted tax is then paid by the RRB to the IRS. The claimant's employer is notified of the gross total of sickness benefits paid subject to Tier I tax during the month. If taxed sickness benefits become recoverable for any reason, the after-tax net amount is recoverable from the claimant. The amount of Tier I taxes that were withheld and paid to the IRS may be claimed as a credit against future payments to the IRS.

Employers are notified on a monthly basis of credits taken by the RRB on the employee-share of the Tier I taxes on recovered benefits. The notices allow employers to also take a credit of the employer-share of Tier I taxes. The notices are sent with Form Letter ID-6 listing the amount of tax credit taken by the RRB and the month in which the tax was originally deducted.

## **PART VI Adjustment Reports to Service and Compensation**

### **CHAPTER 1: Form BA-4, Report of Creditable Compensation Adjustments**

Form BA-4 is used to correct an error or omission in service and compensation previously reported.

If an error is discovered prior to filing the annual report, the adjustment for current year service and compensation should be incorporated into the current year annual report. Adjustments for current year earnings, which cannot be incorporated into the current year annual report, should be clearly marked as current year adjustments. Otherwise the adjustments will reject from processing and the employer will be notified.

Employers may initiate an adjustment report to correct an error the employer has determined or the Railroad Retirement Board may request an adjustment report to correct an error the RRB has determined. Part III, Chapter 6 contains information on requests for adjustments and clarification sent by the RRB.

#### **Submitting Form BA-4**

If a service month and/or compensation error or omission is identified, prepare Form BA-4 to make the correction. Form G-440 is required to accompany each group of Form BA-4s submitted to the RRB. On the reverse side of Form G-440, recap the number of items and totals for each type of adjusted compensation, with separate totals for increase and decrease items.

#### **Service Month Adjustments**

If an employee was not credited or erroneously credited with a service month, complete Item 9 and Item 10 of Form BA-4. In Item 9, mark only the service months that you are increasing or decreasing. In Item 10, enter the total number of service months increased or decreased. Do not report a service month on Form BA-4 unless:

- you did not previously report the month and you are correcting this omission, or
- you previously reported the month in error and you are now removing the month.

When adjusting service months, also consider the Railroad Unemployment Insurance Act amount.

If the employee has service months credited or removed, there may be associated increases or decreases in the amount of reported RUIA compensation. RUIA compensation is subject to a monthly maximum.

#### **Compensation Adjustments**

To adjust compensation amounts, enter the net compensation increase or decrease in Item 8 for RUIA compensation, Item 11 for Tier I compensation, and Item 12 for Tier II compensation.

#### **Example**

The Railroad Retirement Board received a 1995 Form BA-3a, Annual Report of Creditable Compensation, that credited an employee with 12 service months, Tier I compensation of \$45,000,

**Part VI, Chapter 1**

---

---

and RUIA compensation of \$10,200. Subsequently, the employer identified the following reporting error; The employee did not perform creditable railroad service in December 1995, and was erroneously credited with December compensation of \$2000 from her employer's matching contribution to a 401(k) plan.

**To correct this error:**

- Employer is required to file Form BA-4, Report of Creditable Compensation Adjustments, to the Railroad Retirement Board.
- Adjust December service month by marking the December column of Item 9 and entering "1" in the decrease column of Item 10.
- Adjust the RUIA compensation reported by entering \$850 ( $\$850 \times 1$ ) in the decrease column of Item 8.
- Adjust the Tier I compensation reported by entering \$2000 in the decrease column of Item 11.
- Adjust the Tier II compensation reported by entering \$2000 in the decrease column of Item 12.

Note - Sick Pay and Miscellaneous Compensation are creditable as Tier I compensation but adjustments to those amounts are reported on Form BA-10, Report of Miscellaneous Compensation and Sick Pay.

The Railroad Retirement Act imposes a four-year statute of limitations for adjusting a report of creditable compensation. If the calendar year being adjusted is prior to four years from the current reporting year, indicate the line number and the reason the employee's record is being adjusted in Item 15 of the adjustment form.



## **CHAPTER 2: Time Limitations for Adjustment Reports**

Section 9 of the Railroad Retirement Act provides that the Railroad Retirement Board's records of service and compensation are conclusive as to the amount of compensation paid during the period covered by the report, unless an error is called to the RRB's attention within four years of the day on which the report was required to be made. Employers are required to file with the RRB, on or before the last day of February, an annual report of service and compensation for employees who performed compensated service in the preceding calendar year. Likewise, the fact that no report of compensation was made is taken as conclusive that no compensation was paid, unless the failure to make a report of the compensation is called to the RRB's attention within four years of the day on which the report was required to be made.

For example, 1996 reports of service and compensation were due at the RRB on February 28, 1997. The last day to submit a corrected report of Tier compensation for the year 1996 would be February 28, 2001. On February 28, 2001, the time limit for adjustments to Tier compensation in 1996 will have expired.

Section 6 of the Railroad Unemployment Insurance Act (RUIA) provides that the RRB's records of compensation are conclusive unless an error is called to the attention of the RRB within eighteen months of the date on which the return was required to be filed. The last day to submit a corrected report of RUIA compensation for the year 1996 would be August 31, 1998.

### **Exceptions to the Four Year Adjustment Limitation**

Part 211.16 of the Railroad Retirement Board's Regulations allow corrections beyond the four-year adjustment period in the following circumstances:

- the compensation was posted or not posted as the result of fraud on the part of the employer;
- the compensation was posted for the wrong person or wrong period;
- the earnings were erroneously reported to the Social Security Administration in the good faith belief by the employer or employee that such earnings were not covered under the Railroad Retirement Act;
- where a determination pertaining to the coverage under the Railroad Retirement Act of an individual, partnership, or company as an employer, is retroactive; or
- where, in the judgement of the three-member Board, failure to make a correction would be inequitable.

An employer who discovers an error in a compensation report beyond the four-year period should submit Form BA-4, Report of Creditable Compensation Adjustments, accompanied by an explanation

**Part VI, Chapter 2**

---

---

of the delay and a statement regarding the payment of applicable taxes.

An employee will not be credited with service months or Tier II compensation beyond the four year period unless the employee establishes to the satisfaction of the Board that all employment taxes imposed by Sections 3201, 3211, and 3221 of title 26 of the Internal Revenue Code have been paid with respect to the compensation and service.

**How to Determine the Four Year Period for Retroactive Payments**

Reports adjusting prior-year service and compensation are due at the RRB by the end of the month following the calendar quarter in which the payment was made or the error or omission was determined. For example, if payment was made in July 1997 for a period of lost earnings in 1991 and 1992, the report would be due by October 31, 1997. If an employer is filing an adjustment which appears to be beyond the four year period, such as in the above example, the employer should complete Item 15 on the adjustment report. This item allows an employer to identify current payments which are allocated more than four years prior to that year. If the adjustment report is filed on magnetic media, the employer can put this information in the "Remarks" section of Form G-440, Report Specifications Sheet.

**CHAPTER 3: Records Retention Requirement**

Employers are required (20 CFR 345.24(b)) to retain payroll records on which service and compensation reports are based for 5 years after the due date of the compensation report or the date that the Railroad Unemployment Insurance Act contribution to which they relate is paid, whichever is later. For example, the payroll records for 1997 (for which compensation was reported February 28, 1998) are to be retained until March 1, 2003.

**Exception**

In the event of a dispute of the compensation report, the records must be retained as long as the dispute is held open. Disputes include any requests from the Railroad Retirement Board for reconciliation of report data that were made within the five year period and which remain outstanding.