

## 10 Taxation Legislation

### 10.05 General

Various legislation enacted between 1983 and 1986 has significantly affected how railroad retirement annuities are treated for Federal income tax purposes. Prior to this legislation, only the supplemental annuity was taxable under the Internal Revenue Code (IRC). Effective with the following legislation, all components of a railroad retirement annuity became taxable income under the IRC:

- 1983 Social Security Amendments;
- Railroad Retirement Solvency Act of 1983;
- 1985 Omnibus Budget Reconciliation Act; and
- Tax Reform Act of 1986.

Revenue raised from these laws is helping to keep the railroad retirement system solvent. Proceeds through FY 1992 will be transferred by the Treasury Department to the Railroad Retirement Account to be used for benefit payments.

### 10.10 1983 Social Security Amendments

The 1983 Social Security Amendments required that social security benefits, tier 1 railroad retirement benefits, and overall minimum (O/M) formula benefits became taxable under U.S. income tax laws effective January 1, 1984.

#### **10.10.05 Social Security/Tier 1 Threshold Tax**

Up to 50% of the tier 1 portion of an annuity and of O/M formula benefits of U.S. citizens and residents are subject to taxation based on a "threshold." The threshold for a single annuitant is \$25,000; the threshold for a married annuitant is \$32,000; the threshold for a married, filing separately, annuitant is \$0. If an annuitant's unadjusted gross income plus 50% of the tier 1 and O/M benefits received is over the prescribed threshold, then the lesser of 50% of the excess over the threshold or 50% of the tier 1 and O/M benefits received must be included as taxable income.

A flat 15% of tier 1 and O/M formula benefits must be withheld from nonresident aliens. Nonresident aliens are subject to a mandatory 30% withholding of all taxable benefits (as of January 1, 1984, this included only the tier 2, vested dual benefit, and supplemental annuity). Since 85% of the tier 1 and O/M formula benefit is taxable, 85% of 30%, or 25.5%, must be withheld by law. The amount of tax withholding may be reduced if the beneficiary has claimed an exemption

under a tax treaty that is in effect between his or her country of residence and the United States.

The taxable tier 1 is the net tier 1 with any workers' compensation (WC) reduction added back. This is the tier 1 before SMIB premium deduction, tax withholding, partial withholding, or recoveries for overpayment, RUIA, garnishment, or assignment offset. This is also the tier 1 after actuarial adjustment, work deduction assessment, and annuity waiver.

Any tier 1 and O/M formula benefits due for months prior to December 1983 (amounts that could have been paid prior to January 1984) are not taxable even if the accrued benefits are paid after 1983. For payments due for months after November 1983, an annuitant may choose to count a prior year tier 1 or O/M accrual to either the year **in** which it is paid or to the year **for** which it is due.

**EXAMPLE:** An unmarried annuitant earned \$27,000 in 1984 before retiring effective September 1, 1984. He was awarded a partial rate in October 1984. In February 1985, his tier 1 annuity was recertified to a final rate; \$1,000 of his accrual check was attributable to 1984. If he chose to count the \$1,000 in 1985, his total taxable income would not reach his threshold and he would not have to pay tax on the 1984 accrual money. If he chose to count the \$1,000 in 1984, it would be added to his other income, which exceeds his threshold, and up to 85% of the \$1,000 (up to \$850) would be taxable. By choosing 1985, he avoids paying tax on the \$1,000.

## **10.15 Railroad Retirement (RR) Solvency Act of 1983**

The taxation provisions of the Railroad Retirement Solvency Act of 1983 also became effective on January 1, 1984. This legislation was intended to solve the financial problems by allowing the Railroad Retirement Account to borrow against the assets of the Financial Interchange on a current basis beginning October 1983. The RRB would compute the money owed for the past month and the Treasury would credit the Account with general revenue funds. At the time of the Financial Interchange payment, repayments plus interest would be made to the Treasury.

### **10.15.05 Tier 2/Vested Dual Benefit Tax**

The railroad retirement annuity, except for the tier 1 portion, is treated as a private pension for tax purposes. The employee contribution portion of the benefit is considered to be whatever tier 2 tax he paid starting 10-1-81 plus the excess over the FICA tax rate for the period 1-1-37 through 9-30-73. Supplemental annuities and the vested dual benefit (windfall) component of a railroad retirement annuity are considered as having no employee contributions. This means that the RRB is responsible for providing to each annuitant by January 31 of each year a statement of the amount of tier 2, vested dual benefit,

and supplemental annuities paid through the previous calendar year, plus the amount of employee contributions attributable to the benefit type paid that year.

Since these components are being treated like private pensions, they are counted as earnings for income tax purposes - there is no threshold for their taxability as there is for the tier 1 taxation provision in the Social Security Amendments.

As under Civil Service retirement, the annuity does not become taxable until the employee has recouped his contributions. In the case of railroad retirement tier 2 payments, the receipt of this component at any time (even prior to the taxability of the component) will serve to offset the employee contributions for determining taxability. Although taxable, receipt of the vested dual benefit component does not count against the employee's contributions. Taxability of railroad retirement annuities coincides with the taxability of tier 1 and social security benefits. All benefits paid on or after January 1, 1984, are considered.

### **10.15.10 Tier 2**

The taxable tier 2 is the tier 2 after the employee's contribution has been recovered. This is also the tier 2 before tax withholding, SMIB premium deduction, RUIA/SUP ANN/SSA recovery, garnishment, or assignment offset. This is the tier 2 after actuarial adjustment, waiver, legal process partition, and work deduction assessment. The employee's tier 2 contribution (T2C) is the amount paid in RRA taxes that exceeds the amount that would have been paid in FICA taxes. From 1937 through 1973, the RRA tax exceeded the FICA tax at varying rates; from 1974 through September 1981, the tax rates were the same; from October 1981 through the current period, the RRA tax exceeds the FICA tax by 2%. Tier 2 benefits are, in theory, not taxable until all annuitants drawing on an employee's record have together received an amount in tier 2 payments that equals the employee's tier 2 contribution.

The tier 2 will be taxed in either of two ways -- the "3 year rule" or the "general rule." The 3 year rule allows the annuitant(s) to receive tier 2 benefits tax free until the employee's tier 2 contribution has been recovered from tier 2 benefits paid IF the contribution can be recovered within a 36-month (or 3-year) period. If the T2C cannot be recovered within a 3-year period, the general rule applies. However, due to the complexity of the general rule provision and the fact that the vast majority of annuitants would be covered under the 3 year rule, an administrative decision was made to only tax railroad retirement annuities under the 3 year rule. The general rule was not applied until later legislation eliminated the 3 year rule (see TOM 10.25).

Another administrative decision deemed all beneficiaries entitled to railroad retirement benefits before 1980 to have recovered all employee contributions.

Tier 2 benefits due for months prior to December 1983 (amounts that could have been paid prior to January 1984) are not taxable even if the accrued benefits are paid after 1983. For payments due for months after November 1983, a tier 2 accrual is taxable **in** the year it is received. The annuitant does **not** have the choice with a tier 2 accrual that he has with a tier 1 accrual in choosing the taxable year to which the accrual is counted.

### **10.15.15 Vested Dual Benefit Tax**

The entire vested dual benefit (VDB) is taxable from the VDB date of entitlement. This is the VDB before tax withholding, SMIB premium deduction, RUIA/SUP ANN/SSA recovery, or recoveries for overpayments, or garnishment, or assignment offset. It is the VDB after actuarial adjustment, work deduction assessment, waiver and legal process partition.

VDB benefits due for months prior to December 1983 (amounts that could have been paid prior to January 1984) are not taxable even if the accrued benefits are paid after 1983. For payments due for months after November 1983, a VDB accrual is taxable in the year it is received.

## **10.20 1985 OMNIBUS Budget Reconciliation Act**

Public Law 99-272, entitled the "Consolidated Omnibus Budget Reconciliation Act of 1985," became effective January 1, 1986, and affects the taxability of tier 1 benefits. It qualifies tier 1 as a social security equivalent benefit (SSEB) only when entitlement and calculations are consistent with SSA rules. A tier 1 that is not an SSEB is taxed like a private or public service pension. Such benefits are not subject to the income threshold which limits the taxability of SSA and tier 1 (SSEB) benefits.

Splitting tier 1 into a social security equivalent benefit (SSEB) portion and a non-social security equivalent benefit (NSSEB) portion for tax purposes only is done using the Social Security Administration's benefit computation rules.

### **10.20.05 SSEB**

For 1984 and 1985, the Internal Revenue Code treated social security tier 1 railroad retirement benefits alike in all cases. The taxability of those benefits was restricted by an income threshold as explained in TOM 10.10.05.

Under the new law, the amount of tier 1 which would be payable if railroad employment had actually been covered under the Social Security Act is known as the social security equivalent benefit (SSEB). When entitlement becomes consistent with Social Security Act rules (for example, an annuitant has a disability freeze, is a full age annuitant, or a 60/30 annuitant attains age 62), the SSEB portion of tier 1 will be taxable under the threshold rules; the remainder, if any, will be treated like tier 2 for tax purposes.

The following are a few examples where the tier 1 is all SSEB:

- Annuitants whose type of annuity is full age 65.
- Reduced age employees paid under the 1981 Amendments.
- Annuitants paid under the overall minimum.
- Employees with a disability freeze.

#### **10.20.10 NSSEB**

NSSEB is the portion of the tier 1 amount that is fully or partially taxed like a contributory private pension to the extent that the amount exceeds the SSEB. In the same manner as with tier 2 benefits these amounts become taxable once the employee contributions have been recovered.

When a tier 1 amount does not have an equivalent entitlement under the Social Security Act, it is considered that the tier 1 is all NSSEB. The following are a few examples where the tier 1 is all NSSEB:

- 60/30 employee annuitants who are under age 62.
- Employee disability annuitants under age 62 without a disability freeze.
- Spouses of employees under age 62 without a disability freeze.
- Any spouse who is under age 62 and does not have a child in care.
- Disabled widow(er)s who are under age 60 and could not be rated disabled under Social Security Act rules.
- Parents who are less than age 62.

In these cases, all of tier 1 is taxed without regard to any income threshold, after the employee's contributions have been recovered.

Generally, when a railroad retirement tier 1 exceeds the SSEB amount, the difference is due to deeming provisions unique to the Railroad Retirement Act. Only the portion of tier 1 (NSSEB) that exceeds the SSEB may be taxed like a contributory private pension. The following are a few examples where the tier 1 exceeds the SSEB and, therefore, the annuitant has an SSEB and NSSEB:

- 60/30 annuitants age 62 or over who became eligible before December 1985.
- Employee disability annuitants over age 62 without a disability freeze.

- Reduced age spouses whose annuities began before 10-81 (the age reduction factor was increased on that date).
- Aged widows whose OBD is before age 62.

## 10.25 Tax Reform Act of 1986

The Tax Reform Act of 1986, Public Law 99-514, was signed into law on October 22, 1986, and became effective July 2, 1986. This legislation made sweeping changes in current tax laws, including amendments to Section 72 of the Internal Revenue Code, which deals with the taxation of pension and annuity income. Since the tier 2 and the non-social security equivalent benefit (NSSEB) portion of the tier 1 of a railroad retirement annuity are treated like a contributory private pension under the Internal Revenue Code, this legislation affects how these two portions of a railroad retirement annuity are taxed.

Under the new law, the 3-year rule that was used in determining the taxability of contributory private pensions was repealed for annuities with beginning dates after July 1, 1986. The general rule now applies to these annuities. Under the 3-year rule, no part of the contributory private pension was taxable until all of the employee's contributions were recovered.

### **10.25.05 General Rule**

Under the General Rule, a part of the employee's tier 2/NSSEB is nontaxable and the remainder is taxable immediately from the annuity beginning date. The nontaxable portion represents a prorated return of investment (the employee's contributions). The nontaxable amount is computed based on the amount of the employee's contributions and the expected return, which is the total amount of annuities expected to be received by the annuitant based on life expectancy factors at the annuity beginning date. The taxable portion changes with COL increases and other annuity adjustments.

Under the new tax law, for employee annuities with beginning dates between July 2 and December 31, 1986, the nontaxable amount remains the same for the life of the annuitant. Contribution recovery is not a factor. However, for cases with beginning dates after December 31, 1986, although the computation of the nontaxable amount remains the same, it is limited to the amount of the employee's unrecovered contributions. Once the contributions have been fully recovered (the annuitant outlives his or her life expectancy), the entire tier 2/NSSEB portions of the annuity become fully taxable (this applies to employees and survivor beneficiaries). Spouse's entire tier 2/NSSEB portion is fully taxable from the spouse's annuity beginning date.

### **10.25.10 Simplified General Rule**

In the 1988 Internal Revenue Service (IRS) Publication 575, Pension and Annuity Income, IRS explains a new method of computing taxable/nontaxable amounts for general rule cases. This method is called the simplified general rule.

The introduction of the simplified general rule does not change any of the taxation concepts that apply under the general rule. However, the difference between the two rules is that the computations of the taxable/nontaxable amounts under the simplified general rule are much less complex than those under the regular general rule.

General rule beneficiaries (annuity beginning date is after July 1, 1986) may choose to use the more simple method of computing their taxable/nontaxable NSSEB/tier 2 amounts by applying the simplified general rule only if they are employee or survivor beneficiaries entitled for life and under age 75 as of the ABD/OBD. Young widow(er)s, minor children, and students who have fixed periods of entitlement cannot use the simplified general rule.

### **10.30 General Agreement on Tariffs and Trade (GATT) Legislation**

Section 733 of the Uruguay Round Agreements Act amends Section 871(a)(3) to increase the percentage of social security benefits or social security equivalent benefit includable in gross income for nonresident aliens from 50 percent to 85 percent effective in 1995. If any additional revenue is generated from this amendment, it would be treated in the same manner as taxes presently withheld from nonresident aliens.

This change affects the taxation of social security benefits and the Social Security Equivalent Benefit (SSEB) portion of Tier 1 paid to nonresident aliens. The increased tax rate is effective for benefits paid after December 31, 1994.

This change does not affect payments to nonresident alien annuitants who live in countries which have tax treaties with the United States (U.S.) exempting them from SSEB tax withholding and who claim tax treaty exemption. These annuitants continue to be exempt from tax withholding.

For example, Israel has an established tax treaty with the U.S. which exempts residents of that country from tax withholding when the treaty is claimed.

Effective for payments made after December 31, 1996, an annuitant may request voluntary withholding with respect to social security equivalent benefits pursuant to the amendment to Section 3402(p).

## 20 RRA Taxation Guidelines and Principles

### 20.05 General Information and Terms

The RRA taxation guidelines and principles are the underlying rules that guide RRA taxation programs and RRA taxation examiner procedures. They cover the structure of the Taxation Accounting System, U.S. citizen and nonresident alien tax rule determinations, taxpayer identifying numbers, the employee contribution amount, tax accounting, tax withholding, tax deposit, tax refund, and tax statement reporting issues. They are not intended for use as a source of basic information, but as guidance for those examiners and analysts with an existing knowledge of RRA taxation subject matters and who perform RRA taxation functions.

The RRA guidelines and principles contained in this section are current as of March 10, 2014. Follow them unless advised otherwise by Policy and Systems. **The directions provided for these rules take precedence over any earlier directions that may have differed in substance or approach.**

1. The terms “reportable” and “reported” as used in this section refer to amounts that are includable or included on RRA tax statements.
2. Unless stated otherwise, references to payments and repayments as used in this section refer to positive amounts.
3. Unless stated otherwise, the principles described in this section apply to both retirement and survivor annuitants.
4. “TAS” as used in this section refers to the Taxation Accounting System.
5. References to “valid” tax withholding refer to income taxes withheld from one or more payments and deposited at the United States Treasury.
6. For Federal income tax purposes, the Internal Revenue Service (IRS) defines the “United States” as the 50 states and Washington, D.C.
7. The IRS identifies a “known” individual as someone who has claimed and, as needed, provided proof of citizenship and residence for Federal income tax purposes. An “unknown” individual is someone who has not claimed, and as needed, provided proof of citizenship and residence for Federal income tax purposes.

### 20.10 General Guidelines

The following general guidelines apply to work performed by the Unemployment and Programs Support Division’s Tax, Clerical and Imaging Section-Tax Section and Policy and Systems’ Payment Analysis and Systems section..



1. If a tax statement was correct based on the facts available to the agency at the time of statement issue, it remains correct.
2. Do not release original or corrected RRA tax statements or original or corrected Forms TXL-120 DF for closed (earlier than the three years prior to the current year) tax years unless requested by the annuitant or his or her representative payee or by Policy and Systems.
3. For the current year, correct TAS. For a prior year, correct the tax statement, unless it's a DF case. For a DF case, see TOM 20.55.4. If an action is required by law or regulation, do it. If it's prevented by law or regulation, don't do it. Cost and impact should be considered before taking any action that is not required.
4. TAS corrections should always be documented.
5. Take responsibility for your work and sign/initial and date what you do.
6. Focus efforts on the issue at hand. Do not redo a case from day one unless the issue at hand requires it.
7. If you find an error, take corrective action.
8. When handling requests, meet customers' needs.

## **20.15 The Taxation Accounting System**

The Taxation Accounting System (TAS) consists of annuitant records, transactional databases, on-line programs, PC programs, and mainframe programs.

Specialized information may be viewed using the General Tax Screens. Complete record information may be viewed using the RRBTAS Screens. Copies of TAS prints may be requested via TAXTECH. See TOM 3700 for more information.

### **1. Annuitant Records**

Annuitant records consist of six tables.

- a. The Claim Tax Record (CLMTAXR) - All annuitants or beneficiaries associated with a railroad worker's (employee's) compensation record are associated with the railroad worker's RRB claim number. The common record for all individuals so linked is the CLMTAXR. The CLMTAXR contains basic information about the employee.

- b. The Annuitant Tax Record (ANNTAXR) - Each individual annuitant or beneficiary linked to the CLMTAXR has an ANNTAXR. The ANNTAXR contains basic information about the annuitant or beneficiary.
- c. The Overpayment Tax Record (OPTAXR) - This record is currently inactive. The OPTAXR is attached to an ANNTAXR and intended to provide overpayment information by components and tax years for posting repayments to TAS. It was designed in an IDMS database environment to occupy space only if overpayment information was updated to the record. The basic screen format may be viewed on the General Tax Screens.
- d. The Recurring Rate Record (RECURRE) - Each annuitant or beneficiary who receives recurring annuity payments has RECURREs attached to his or her ANNTAXR. RECURRE records contain monthly payment information by components. RECURREs may also contain annuity deductions, repayments, and suspension and termination information.
- e. The Nonrecurring Rate Record (NORECURRE) - Each annuitant or beneficiary who receives one or more nonrecurring annuity payments has one or more NORECURREs attached to his or her ANNTAXR. NORECURREs contain payment information by components, and may also contain annuity deductions, repayments, and correction information.
- f. The Statement Tax Record (STATTAXR) - Each annuitant or beneficiary to whom we issue one or more annual tax statements has one or more STATTAXRs attached to his or her ANNTAXR.

## **2. Taxation Accounting System Transactional Databases**

Transactional databases house information entered through online processes. The databases are swept of activity that is subsequently updated to TAS. Taxation transactional databases are:

- a. RRBTAS - RRBTAS is an online TAS correction facility. It is a real time correction process.
- b. STAR - STAR is the System To Apply Repayments. This process is used to create NORECURREs to capture cash refunds and reclamations that need manual posting to TAS.
- c. TAXCOR - TAXCOR is the Taxation Correction Facility. It is used to modify existing CLMTAXRs, ANNTAXRs, RECURREs, and NORECURREs. It is used to create correction RECURREs and NORECURREs.
- d. SPOC - SPOC is the SSEB PIA Online Calculation system. It is a manually driven system that goes to SEARCH twice a week for SSEB PIA information needed for TAS records. This occurs when an SSEB PIA is

missing from a record or when an individual is about to attain social security equivalent benefit status.

- e. W4P - The W-4P transactional database houses edited Forms RRB W-4P entered via the online Form RRB W-4P process. The information is swept from the database and updated to TAS and is the basis for elected tax withholding determinations for U.S. citizen pension (NSSEB tier 1, tier 2, VDB, and supplemental annuity) payments.
- f. W4V - The W-4V transactional database houses edited Forms IRS W-4V entered via the online Form IRS W-4V process. The information is swept from the database and updated to TAS and is the basis for elected tax withholding determinations for U.S. citizen SSEB tier 1 payments.
- g. 1001 - The 1001 transactional database houses edited Forms RRB-1001 White and RRB-1001 Buff information entered via the online Form RRB-1001/RRB-1001 Buff process. The information is swept from the database and updated to TAS. It is the basis for most nonresident citizen and nonresident alien tax rule determinations. For nonresident aliens, it is also the source of tax treaty exemption claim information.

## 20.20 United States Citizen and Nonresident Alien Tax Rules

1. Laws pertaining to United States citizenship and residence issues are covered by the Immigration and Nationality Act (INA). The Immigration and Naturalization Service (INS) used to manage the INA. That responsibility is now under the direction of the U.S. Citizenship and Immigration Service (USCIS), a bureau under the Department of Homeland Security.
2. For United States income tax purposes, the United States is defined as the fifty States and the District of Columbia.
3. For United States income tax purposes, a “known” individual is someone who has claimed, and as needed, provided proof of citizenship and residence. An “unknown” individual is someone who has not claimed, and as needed, provided proof of citizenship and residence.
4. There are two tax rules that affect tax withholding and tax statement reporting. An individual is taxed either under United States (U.S.) citizen rules or under nonresident alien (NRA) rules.

### a. Taxed Under U.S. Citizen Rules

- 1) A known citizen or bona fide resident of the United States, Guam, or the Commonwealth of the Northern Mariana Islands, or
- 2) A known citizen of Puerto Rico or American Samoa, or

- 3) An unknown individual physically residing in the United States or Guam or the Commonwealth of the Northern Mariana Islands.

**b. Taxed Under NRA Rules**

- 1) An individual who is known to be a citizen of a country **other than** the United States, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico or American Samoa **and** who is known to be a bona fide resident for tax purposes of a country **other than** the United States, Guam, or the Commonwealth of the Northern Mariana Islands, or
  - 2) An unknown individual residing outside the United States and Guam and the Commonwealth of the Northern Mariana Islands.
5. Accept a claim of citizenship unless there is reason to question it, such as a previous claim that conflicts with a current claim.
  6. If an individual claims dual citizenship with the United States and another country, establish the United States as the country of citizenship. United States citizenship takes precedence over citizenship in a second country. After entering U.S. citizenship into TAS, refer dual citizenship claims to the Tax, Clerical and Imaging Section-Tax Section for further handling. Also see Item 2.a of TOM 210.75.25, Returned Forms RRB-1001 White - Review for Country of Citizenship Claims, Section 3, Item 1.
  7. For situations requiring proof of residence, see TOM 210.75.35, Returned Forms RRB-1001 White and RRB-1001 Buff – When Proof of Residence for Tax Purposes is Required. For information about acceptable proofs, see RCM 4.9.10.30.10, Proofs of Residence.
  8. An alien may establish United States resident alien status in either of two ways shown below. The IRS changes these rules from time to time, so always refer to the latest version of IRS Publication 519, U.S. Tax Guide for Aliens, for the current rules.

**a. Lawful Permanent Residence Cards**

Lawful Permanent Residence (LPR) Cards, also called Green Cards, establish lawful residence in the United States for a 10 year period. For additional information about Green Cards, see RCM 4.9.10.30.10, Proofs of Residence, item A.1.

**b. Substantial Physical Presence Test**

An alien may establish lawful resident alien status by passing the IRS' substantial physical presence in the United States test. For additional

information about the Substantial Physical Presence Test, see RCM 4.9.10.30.10, Proofs of Residence, item A.2.

## 20.25 United States Taxpayer Identifying Numbers (TINs)

1. A United States Taxpayer Identifying Number (U.S. TIN or TIN) is a tax processing number used by the United States Internal Revenue Service (IRS). The RRB is required by the IRS to have a U.S. TIN for all annuitants to whom we issue RRA income tax statements.
2. The three types of U.S. TINs used in connection with reportable RRA amounts are Social Security Numbers (SSNs), Individual Taxpayer Identification Numbers (ITINs), and Employer Identification Numbers (EINs).

### a. Social Security Numbers (SSNs)

SSNs identify individuals. A SSN is a nine digit number formatted as 123-45-6789. See the Valid SSNs and ITINs graphics document for current SSN range information.

### b. Individual Taxpayer Identification Numbers (ITINs)

ITINs identify individuals. ITINs are assigned by the Internal Revenue Service to individuals who are not eligible to receive SSNs. An ITIN is a nine digit number formatted as 901-76-5432. The first digit of valid ITINs is a 9. ITIN range verification of 900 series numbers is necessary. See the Valid SSNs and ITINs graphics document for current ITIN range information.

#### NOTE:

ITIN range verification is necessary because not all 900 series numbers are ITINs. 900 series numbers include Internal Revenue Service Numbers (IRSNs). IRSNs cannot be substituted for ITINs. IRSNs are temporary numbers issued to individuals for use in processing United States income tax returns.

### c. Employer Identification Numbers (EINs)

EINs identify business entities, such as estates or administrators of estates. An EIN is a nine digit number formatted as 12-3456789.

## 20.30 Employee Contribution (EEC) Amounts

1. The EEC amount is the difference between payroll taxes paid by an employee for payments under the Railroad Retirement Act and the amount of payroll taxes an employee would have paid if RR service were covered under the Social Security Act.

2. Before the existence of NSSEB tier 1, the only component an employee contributed to was tier 2, and the contribution was called the tier 2 contribution (T2C) amount. NSSEB and tier 2 are paid from the same RRB fund, so with the existence of NSSEB in tax year 1986, an employee contributed to both NSSEB and tier 2. The contribution amount is now called the employee contribution (EEC) amount, although some references to the T2C still exist.
3. NSSEB and tier 2 amounts are referred to as contributory amounts paid because the employee contributes to these payments through payroll taxes. The amount the employee contributes to NSSEB and tier 2 may be referred to by the IRS as a return on a wage earner's investment, or as a wage earner's cost in his [pension] contract.
4. For EEC recovery purposes, NSSEB and tier 2 payments should be considered "periodic payments" received under a "qualified" employee pension plan.
5. The IRS allows some individuals, referred to in this section as "eligible" annuitants, to recover a portion of the EEC amount tax free. The nontaxable portion of contributory amounts paid represents recovery of the EEC.
6. The RRB provides information regarding the amount of the EEC, and that it must be shared by all eligible annuitants receiving contributory amounts paid on a given railroad account number. The IRS provides information regarding the appropriate method of recovery and how to calculate nontaxable contributory amounts paid.
7. EEC amounts are provided on some annual RRA tax statements containing contributory amounts paid. We do not provide EEC amounts when we know the EEC has already been exhausted and is no longer available for use by anyone, or because type of annuitant is ineligible to use it. The current tax statement form containing contributory amounts paid is Form RRB-1099-R.
8. An EEC amount provided on Form RRB-1099-R is the entire amount attributable to a railroad account number. It is not the amount available to individual annuitants. When one or more annuitant either is or was eligible to use the EEC, the amount still available to be used must be calculated. That means determining:
  - a. The portion of the total EEC amount still potentially available for use, and
  - b. The portion of the total EEC amount still potentially available for use that must be shared by other eligible annuitants currently receiving contributory amounts paid.

9. Disability annuitants under minimum retirement age **may not** use the EEC amount to calculate a nontaxable portion of contributory amounts paid. Their contributory amounts paid are fully taxable until they reach minimum retirement age. Minimum retirement age is the age an employee could retire based on age and service alone, or when an auxiliary beneficiary could retire based on age alone.
10. EECs may increase or decrease based on changes reported by the railroads. Increases happen regularly in the year after the ABD year when final RR earnings are reported to the RRB. The tax implications of EEC changes are fully retroactive to an annuitant's ABD. Individuals who have calculated nontaxable portions of contributory amounts paid using an EEC that subsequently changes must determine if they need to file original or corrected Federal income tax returns using the adjusted EEC to determine their nontaxable contributory amounts paid.
11. An annuitant's ABD and age drive the methods available to determine nontaxable (tax free) portions of contributory amounts paid. Recovery methods have evolved over time. The Three-Year Rule was followed by the 1986 General Rule, which was followed by the 1987 General Rule. Annuitants now need to determine if they should use the General Rule or the Simplified Method to determine tax free amounts.

For additional information about current recovery methods, see IRS Publication 575, Pension and Annuity Income, and IRS Publication 939, General Rule for Pensions and Annuities.

A divorced spouse or divorced widow receiving a legal process partition payment under a court order **is not** an eligible annuitant. A Qualified Domestic Relations Order (QDRO) may state that a divorced spouse or widow shall receive a share of the employee's investment or cost in his contract. IRS Publication 575 indicates the same. However, a divorced spouse or divorced widow may not receive a share of the EEC because **the Railroad Retirement Act does not allow for division of the EEC**. While a court may order division of the EEC, it has no authority to make such an order, and the RRB **will not** comply with it.

### 20.35 Annuity Payments

The following principles apply to the taxation of annuity payments made under the Railroad Retirement Act.

1. A regular annuity (OM formula, tier 1, tier 2, Vested Dual Benefit [VDB]) payment effective 12-1-1983 and later is taxable in the year in which paid. A taxpayer may choose to consider pre-Social Security Equivalent Benefit (SSEB) payments and SSEB payments taxable either in the year in which they are paid or in the year for which they are paid. Considering pre-SSEB

and SSEB payments taxable in the year(s) for which they are paid may lower the total taxable income of the year in which they are paid.

2. A supplemental annuity payment effective 11-1-1966 and later is taxable in the year in which paid.
3. A tier 1 payment effective for all or part of the period 12-1-1983 through 11-30-1985 (tax years 1984 and 1985) is reportable as a pre-SSEB amount. A tier 1 payment effective 12-1-1985 and later is reportable as a SSEB and/or Non-Social Security Equivalent Benefit (NSSEB) amount.
4. Railroad retirement pension (NSSEB tier 1, tier 2, VDB, and supplemental annuity) payments are, for Federal income tax purposes, considered amounts received under a **qualified employee pension plan**.
5. The SSEB/NSSEB allocation of tier 1 payments based on annuity eligibility is as follows:
  - If SSA would not pay the individual, tier 1 is all NSSEB.
  - If SSA would pay the individual and would apply the same age reduction rules, tier 1 is all SSEB.
  - If SSA would pay the individual but would not apply the same age reduction rules, tier 1 is a SSEB/NSSEB split.
6. SSA and RRB apply earnings work deductions differently, and these differences sometimes result in tier 1 payments determined to be SSEB when SSA would not pay a benefit because of earnings. If the tier 1 being paid is only PIA 17 (the net tier 1 payable after offset for work deductions), tier 1 is not necessarily all NSSEB. PIA 17 may be all NSSEB, all SSEB, or part NSSEB and part SSEB.
  - Whenever the SSEB portion of tier 1 is equal to zero, PIA 17 is all NSSEB.
  - Whenever the NSSEB portion of tier 1 is equal to zero, PIA 17 is all SSEB.
  - Whenever the SSEB and NSSEB portions of tier 1 are both greater than zero and PIA 2 (the amount of tier 1 subject to work deductions) is greater than or equal to SSEB, PIA 17 is all NSSEB.
  - Whenever the SSEB and NSSEB portions of tier 1 are both greater than zero and PIA 2 is less than SSEB, PIA 17 is part SSEB and part NSSEB.
7. SSEB is an entitlement issue, not a payment issue. That means any tax statement issued should reflect the amount of SSEB an annuitant was



entitled to receive, not to exceed the amount of taxable tier 1 paid, based on all information in the agency at the time of statement issue.

8. All individual components of a regular annuity payment are taxable **gross of** (before) offset for SMIB premium deduction, legal process garnishment deduction, full withholding, partial withholding, tax withholding, recovery of debts collected through the Treasury Offset Program, and accrual recoveries of RR/SUPP/SS/RUIA overpayments. In addition, SSEB is taxable **gross of** (before) offset for any workers compensation amount.

All individual components of a regular annuity payment are taxable **net of** (after) offset for actuarial adjustment, annuity waiver, work deduction, and legal process partition deduction. In addition, NSSEB is taxable **net of** (after) offset for any workers compensation amount if tier 1 is all NSSEB.

9. A supplemental annuity payment is taxable **gross of** (before) offset for legal process garnishment deduction, full withholding, partial withholding, tax withholding, and accrual recoveries of RR/SUPP/SS/RUIA overpayments. A supplemental annuity payment is taxable **net of** (after) offset for annuity waiver, work deduction, and legal process partition deduction.
10. Pre-SSEB and SSEB payments are taxed like social security benefits. NSSEB and tier 2 payments are taxed as **contributory pensions**. VDB and supplemental annuity payments are taxed as **non-contributory pensions**.
11. A payment made to issue the over-reimbursement of an overpayment is not taxable. Also see TOM 20.45, Annuity Recoveries – Positive Repayments and Negative Payments, principle 6.
12. A courtesy disbursement is considered a nontaxable payment. We do not capture courtesy disbursements in TAS. In non-receipt situations, we report release of original payments in the years in which they should have been received by the annuitants. Also see principle 10 in TOM 20.45, Annuity Recoveries – Positive Repayments and Negative Payments.
13. A payment made to reimburse an individual for an overpayment recovery amount erroneously withheld from one or more annuity payments is not taxable if the reimbursement payment is made in the same year in which the erroneous recovery occurred. This is true for SSEB, NSSEB, tier 2, the VDB, and the supplemental annuity. Any repayments posted to TAS from the erroneous recovery are not reportable on income tax statements. Also see TOM 20.45, Annuity Recoveries – Positive Repayments and Negative Payments, principle 7.
14. A payment made to reimburse an individual for a prior year overpayment recovery erroneously withheld from one or more annuity payments is taxable if the reimbursement payment is made in a later year than the one in which

the erroneous recovery occurred, and if the erroneous recovery resulted in repayments being reported on the tax statement for the year of the recovery, and if the tax statement(s) for the year of recovery will not be corrected to remove the erroneous repayments. The statement(s) for the year of recovery should be corrected unless it is earlier than the earliest open tax year for which the RRB will issue corrected tax statements. This is true for SSEB, NSSEB, tier 2, the VDB, and the supplemental annuity.

If a Corrected tax statement has or will be issued for the year of the erroneous recovery to remove repayments associated with that recovery, then a payment made to reimburse an individual for the erroneous recovery should not be reported as taxable in the year of the reimbursement. Also see TOM 20.45, Annuity Recoveries – Positive Repayments and Negative Payments, principle 7.

15. The amount of an annuity due but unpaid at death is taxable to the recipient after offset for any deduction amounts attributable to the deceased annuitant. Deduction amounts attributable to the deceased annuitant and the payments that created them should be established on the deceased annuitant's tax record. These deduction amounts may be monthly or accrual amounts and may be taxable or nontaxable amounts.

Examples of accrual amounts are outstanding RRA or RUIA overpayments or SMIB premium arrearages. Also see TOM 20.45, Annuity Recoveries – Positive Repayments and Negative Payments, principle 9.

16. The RRB's decision to waive recovery of an overpayment of taxable payments does not affect our requirement to report these payments as taxable in the year in which they are paid.
17. Effective with tax year 1994, amounts of \$600 or more of overpayment principal, interest, penalty, and administrative costs that were never reported to the IRS as taxable paid amounts, and that are waived, compromised, or otherwise deemed permanently uncollectible by the RRB, must be reported to the IRS as paid amounts in the year waived, compromised, or otherwise deemed permanently uncollectible.
18. The RRB excludes reporting of any OM, pre-SSEB, SSEB, NSSEB, tier 2, VDB, and supplemental annuity payments made to an annuitant after his or her death when we know of the death at the time tax statements are originally issued.
19. An annuity rate adjustment is a reportable event in the year in which it occurs. An annuity rate adjustment occurs when it is first established in the claim folder or on the Imaging system, whether or not it is processed on a vouchered award.

20. All one payment only (OPO) NORECURRs created via STAR or TAXCOR must be checked to determine if the individual for which the NORECURR is being processed is a nonresident alien (NRA). If so, the NRA's country of legal residence and NRA tax withholding percentages (0% or 15% or 30%) must be included in the NORECURR.

The same is true if an existing NORECURR is modified with TAXCOR or RRBTAS. All RECURRs and NORECURRs for a given year must contain the same country codes and NRA percentages or the automated tax statement process will believe there has been a change in this information and attempt to create multiple tax statement sets.

## 20.40 Annuity Deductions

Annuity deductions are allocated to gross component payment amounts to determine correct net taxable component payment amounts. Manual allocation of annuity deductions to component payment amounts may be necessary if dealing with overpayments that were never calculated by components. These are sometimes referred to as non-tiered payments and repayments.

### 1. The Order of Deductions

When multiple annuity deductions apply, they should be applied to component payment amounts in a specified order. Component payment amounts available for reduction are impacted by any and all deductions applied to the component. The order of deductions affects the amount of the components payable, and thus reportable to the Internal Revenue Service. The order of annuity deductions for RRA taxation purposes is as follows:

- a. Work Deduction Amounts
- b. Waiver Amounts
- c. Partition Deduction Amounts
- d. Garnishment Deduction Amounts
- e. Actuarial Adjustment Amounts
- f. Partial Withholding Repayment Amounts
- g. Tax Withholding Amounts
- h. RR SMIB Deduction Amounts

### 2. Component Specific and Non-Component Specific Annuity Deductions

Annuity deductions may be component specific or non-component specific.

- Component specific deductions should be allocated **only** to the designated components.
- Non-component specific deductions should, with the exception of SMIB premium deductions, be prorated over RR formula regular annuity components. If the OM formula applies, non-component specific deductions should be allocated to SSEB.

### 3. **Allocation of Annuity Deductions to Annuity Components**

Below is a listing of annuity deduction amounts and how they should be allocated for taxation purposes to component payment amounts.

<b><u>Deduction</u></b>	<b><u>Allocation to Components</u></b>
Work Deduction Amounts	<p>Retirement work deductions are component specific. Allocate excess earnings work deductions to any tier 1 and vested dual benefit, as appropriate. Allocate last person employment work deductions to any tier 2 and supplemental annuity, as appropriate.</p> <p>Survivor recurring work deductions are not component specific. Prorate survivor recurring work deductions over any tier 1, tier 2, and vested dual benefit amounts.</p> <p>For both retirement and survivor records, allocate tier 1 work deduction amounts to SSEB whenever possible. Allocate tier 1 work deductions to NSSEB only when tier 1 work deductions exceed the SSEB portion of tier 1.</p>
Waiver Amounts	<p>Waiver amounts may be component specific or non-component specific. Use the waiver code information in the PREH Reduction Record to determine what kind of waiver is involved.</p> <p>If the waiver is component specific, allocate the waiver amount to the appropriate annuity component(s). A tier 1 waiver amount should be prorated between any</p>

	<p>SSEB and NSSEB. If the waiver is unspecified, prorate the waiver amount over any SSEB tier 1, NSSEB tier 1, tier 2, and vested dual benefit amounts.</p> <p><u>NOTE:</u></p> <p>A waiver code of 5 in a survivor record denotes a recurring prorated work deduction amount, not a waiver amount. See Work Deduction Amounts above for guidance on survivor recurring prorated work deductions.</p>
Partition Deduction Amounts	<p>Legal process partition deduction amounts are component specific. Allocate regular annuity partition deduction amounts applicable to OM formula payments to pre-SSEB and SSEB only, as appropriate. Allocate regular annuity partition deduction amounts applicable to RR formula regular annuity payments to any tier 2 and vested dual benefit amounts, as appropriate. Tier 1 payments may not be partitioned.</p> <p>Allocate supplemental annuity partition deduction amounts to the supplemental annuity.</p>
Garnishment Deduction Amounts	<p>Legal process garnishment deduction amounts are not component specific. Prorate garnishment deduction amounts over any SSEB tier 1, NSSEB tier 1, tier 2, and vested dual benefit amounts.</p>
Actuarial Adjustment Amounts	<p>Actuarial adjustment amounts are not component specific. Prorate actuarial adjustment amounts over any SSEB tier 1, NSSEB tier 1, tier 2, and vested dual benefit amounts.</p>
Partial Withholding Repayment Amounts	<p>Partial withholding repayment amounts are component specific. They should be allocated according to the composition of</p>

	<p>the overpayment(s) being recovered. Overpayments may occur in single annuity components or multiple annuity components. They may be fully taxable, fully nontaxable, or partially taxable and partially nontaxable. Allocate partial withholding repayments to the appropriate taxable and/or nontaxable repayment fields.</p> <p><u>NOTE:</u> Unlike other component specific deduction amounts, repayments <u>may be</u> allocated to annuity components that are no longer payable.</p>
Tax Withholding Amounts	Tax withholding amounts are component specific. Apply tax withholding amounts to the appropriate annuity components.
RR SMIB Deduction Amounts	<p>RR SMIB deduction amounts are not component specific. Allocate RR SMIB deduction amounts to regular annuity components in SSEB tier 1, NSSEB tier 1, tier 2, and vested dual benefit order, until the SMIB is fully allocated. SMIB allocations are no longer restricted to single annuity components.</p> <p><u>NOTE:</u> Unlike other non-component specific deduction amounts, RR SMIB deduction amounts <u>are not</u> prorated over the regular annuity components. We allocate SMIB to SSEB first to more closely align our SMIB allocation processing with SSA's.</p>

For an example of allocating multiple deductions to annuity components for RRA taxation purposes, see TOM 20 Exhibit 4, The Order of Annuity Deductions and How It Affects Taxable Component Payment Amounts.

#### **20.45 Annuity Recoveries – Positive Repayments and Negative Payments**

The following principles apply to tax accounting of positive repayments and negative payments by the Railroad Retirement Board.

A positive repayment for tax accounting purposes is the return (check or EFT payment) or recovery (full or partial cash refund, installment payment, full or partial annuity withholding, recovery from an accrual payment, reclamation, et cetera) of an amount previously paid. See principle 2 below for further clarification, and see principles 5 and 11 below for exceptions.

A negative payment for tax accounting purposes is the return (check or EFT payment) or recovery (full or partial cash refund, installment payment, full or partial annuity withholding, recovery from an accrual payment, reclamation, et cetera) of an amount previously paid. See principles 5 and 11 for clarification and for limitations in the use of negative payment tax accounting.

1. Repayments are reportable for the year(s) in which repayment transactions occur at the RRB. "At the RRB" includes headquarters, RRB field offices, and RRB lockboxes. When repayments are handled at more than one of these facilities, they should be credited as of the earliest receipt date.
2. Pension (NSSEB, tier 2, VDB, and supplemental annuity) repayments are reportable **only if** the amounts repaid were previously reported as taxable payments on any annual RRA tax statement(s).

**NOTE 1:**

A current year repayment is one that occurs in the same year as the payment it represents. A current year pension repayment **may not be** reported on an annual tax statement because the above tax principle does **not** apply. This is because the current year pension payment that a current year repayment represents was never reported as a taxable paid amount.

To compensate, we net any current year pension repayment accumulated for tax statement reporting purposes from any like current year pension payment accumulated for tax statement reporting purposes. In these situations, we report **neither** the current year repayment amount **nor** the corresponding current year payment amount.

**NOTE 2:**

Whenever we exclude reporting of any NSSEB, tier 2, VDB, and supplemental annuity payment amounts issued after the death of an annuitant (see TOM 20.35, Annuity Payments, principle 18), we should **not** report a repayment for recovery of one of these payments.

**NOTE 3:**

Because we are restricted in reporting pension repayments, in certain situations we need to view the contents of the latest original or corrected tax statement(s) issued for overpayment periods to determine if overpaid

pension amounts were reported as taxable payments. This is particularly true when overpayments cover periods for which:

- a. We performed employee contribution recovery processing (1984 through 1991) **and** the overpaid person's contributory pension payments were not fully taxable during the overpayment period.
- b. We did not automatically update one payment only awards to TAS (1984 through 1992) **and** the overpaid person's annuity was adjusted by one or more one payment only awards during the overpayment period.

Tax statement information is stored on TAS, through the TAS archive process, and on annual tax statement microfilm.

3. Pre-SSEB and SSEB repayments are reportable on annual tax statements regardless of whether the amounts repaid were ever reported to the IRS as taxable payments. Pre-SSEB repayments are tier 1 repayments for years before 1986, including years before 1984.

#### **NOTE 1:**

Since SSEB repayments are reportable regardless of whether the amount being repaid was ever reported as a taxable payment, current year SSEB repayments **should be** reported as repayments. We **should not** net current year SSEB repayments from current year SSEB payments. We should report **both** the current year repayments and the corresponding current year payments.

#### **NOTE 2:**

Whenever we exclude reporting any pre-SSEB or SSEB payment amounts issued after the death of an annuitant (see TOM 20.35, Annuity Payments, principle 17), we do **not** report a repayment for recovery of one of these payments.

4. Recurring repayments (partial withholding or full withholding amounts) **not** associated with current year overpayments should be posted to overpaid annuity components as "non-id year" amounts. **Do not** post recurring repayments as "other year" amounts. An error in the module that handles recurring rate records does not process "other year" amounts correctly when partial or full withholding recovery stops.
5. Returned annuity (EFT and paper check) payments issued after the death of a beneficiary should be posted to TAS as reversals of the original payment record, or as negative payments and negative deductions.

#### **EXCEPTION 1:**



If the original payment record contained negative repayments, these amounts are reversed by posting positive repayments.

**EXCEPTION 2:**

If payments issued after death are returned in a year after death, and if those payments were reported on the annuitant's tax statement(s) for the year of death (the payments were not death suppressed), any manually handled returned annuity payments should be posted as positive repayments.

**NOTE 1:**

If payments issued after death are returned in a year after death, and if those payments were reported on the annuitant's tax statement(s) for the year of death (the payments were not death suppressed), the year-end programs will convert the negative payments associated with the returned payments to positive repayments for tax statement reporting purposes.

**NOTE 2:**

If tax withholding was applied to payments issued after death and if the payments are returned in a year after the year of issue, negative payments or positive repayments should be posted to TAS **net of** (after) tax withholding, and the tax withholding amounts **should not** be negated.

6. Over-reimbursements are nontaxable amounts, and should not be reported as repayments. See TOM 20.35, Annuity Payments, principle 11.

Overstated positive repayments posted to TAS during periods of full and partial withholding represent over-reimbursements. When full and partial withholding is removed, we reduce overstated positive repayments by posting negative repayments equal to the over-withholding. Over-withholding removed in the year an overpayment is actually recovered should result in correct repayment totals. Over-withholding removed in a year after the year an overpayment is actually recovered will not result in correct repayment totals.

When over-withholding is removed in a year after the year an overpayment is recovered, it is necessary to adjust reportable totals for the year the full or partial withholding is removed, and to issue corrected tax statements for all years beginning with the year the overpayment was actually recovered.

- From the point of overpayment recovery in full withholding situations, accumulate neither annuity payments nor repayments for tax statement reporting purposes.

- From the point of overpayment recovery in partial withholding situations, reduce annuity payments by the amount of the partial withholding, and accumulate no repayments for tax statement reporting purposes.
- Erroneous overpayment amounts recovered as partial or full withholding or accrual withholding from one or more annuity payments, are not reportable as repayments. This is different than over-withholding of correctly initiated partial or full withholding amounts. See TOM 20.35, Annuity Payments, principle 13.
  - Prior to tax year 1994, accrual tax accounting captured accrued payments and repayments by annuity component by **each** individual tax year. Effective with tax year 1994, simplified accrual tax accounting captures accrued payments and overpayments for the following year combinations:

<u>Pre-SSEB / SSEB</u>	<u>NSSEB</u>	<u>Tier 2</u>	<u>VDB</u>	<u>Supp Ann</u>
Pre-SSEB Pre-1984	NSSEB 1986-YR3	Tier 2 Pre-1984	VDB Pre-1984	Supp Ann Any Year
Pre-SSEB 1984-1985	NSSEB YR2	Tier 2 Post 1983	VDB Post 1983	
SSEB 1986-YR3	NSSEB YR1			
SSEB YR2	NSSEB CY			
SSEB YR1				
SSEB CY				

Repayments are created from the component underpayment/overpayment combinations within prescribed guidelines. See TOM 20.50, Simplified Accrual Tax Accounting Effective Tax Year 1994 – Merge and Cross Component Recovery Processing, for additional information. For an example, see TOM 20 Exhibit 3, Simplified Tax Accounting Effective Tax Year 1994 – Merge and Cross Component Recovery Processing.

**NOTE 1:**

Accrual transactions **no longer** yield tier 2, VDB, and supplemental annuity current year repayments that may be netted from tier 2, VDB, and supplemental annuity current year payments for tax statement reporting purposes. Accrual transactions still yield current year tier 1 repayments.

Therefore, NSSEB repayments **may be** netted from current year NSSEB payments for tax statement reporting purposes. (SSEB is not an issue, as current year SSEB repayments are not netted from current year SSEB payments.)

9. Recoveries of certain overpayments are considered nontaxable recoveries. Any repayments associated with these recoveries are nontaxable repayments, and may not be reported on our annual tax statements. Included are tier 1 workers compensation offset overpayments, RUIA overpayments, SMIB arrearages, RR tax refund overpayments, SALSA overpayments, SS only overpayments, and recovery of amounts originally processed as nontaxable paid amounts.
10. If an annuitant cashes both an original and a courtesy disbursement payment, we do not post repayment credit for recovery for the resulting overpayment. Courtesy disbursement recoveries are not considered reportable repayments because courtesy disbursement payments are not considered reportable payments. Also see TOM 20.35, Annuity Payments, principle 12.
11. We do not have a like pension (NSSEB, tier 2, VDB, and supplemental annuity) accrual repayment field for each pension accrual payment field. That means we cannot always accurately account for **BOTH** the year **for which** an amount is repaid **and** the year **in which** an amount is repaid. Posting certain pension accrual payment recoveries as negative payment amounts allows us to properly net them on our annual tax statements.

Pension accrual payments recovered in the year of payment issue by (1) return of EFT or paper check annuity payments, (2) cash refunds, or (3) cross annuity recoveries involving the **same individual** should be posted to TAS as negative payments, not as repayments. Reverse all payment and deduction fields in the returned payment/cash refund/accrual recovery NORECURR record as they appear in the original payment NORECURR record.

12. Whenever an overpayment occurs in more than one annuity component and whenever the amount recovered is less than the entire overpayment, **prorate repayment allocations**. The “streamlined” approach to posting overpayment recoveries, a method that involves a component hierarchy to allocate repayments, should no longer be used.

An original gross overpayment is defined as **after** any award accrual merge actions within annuity components and **before** any cross component or other accrual recovery actions. Create overpayment component recovery factors for taxable and nontaxable annuity components and any un-tiered nontaxable amount attributable to the original gross overpayment. Apply the overpayment recovery factors to any recoveries that have already occurred,

starting with the award accrual cross component recoveries. Apply them to other recoveries within the accrual. Continue to apply them to subsequent recovery amounts until the overpayment is either fully recovered or until another overpayment is established.

**NOTE:**

- Round overpayment recovery factors to five decimal places.
  - Round payment and repayment amounts to two decimal places.
13. When another overpayment is established before an existing overpayment is fully recovered, it is necessary to create **combined** overpayment recovery factors.

Determine the original gross overpayment of the new overpayment. Create overpayment component recovery factors for the new overpayment. Apply the overpayment recovery factors to any recoveries that have already occurred for the new overpayment, starting with any accrual recoveries as described in principle 12 above.

Then add the unrecovered taxable and nontaxable balances of the **first overpayment** by annuity components to the unrecovered taxable and nontaxable balances of the **new overpayment** by annuity components

Create combined overpayment recovery factors. Apply the combined overpayment recovery factors to any subsequent recoveries until the combined overpayments are either fully recovered or until yet another overpayment is established.

14. When deduction amounts attributable to a deceased annuitant are recovered from an annuity due but unpaid at death, the deductions and the payments that created them should be established on the deceased annuitant's tax record. Any taxable amounts are reportable to the deceased annuitant in the year of recovery. Also see TOM 20.35, Annuity Payments, principle 15.
15. When processing STAR NORECURRs to enter repayments or repayment adjustments for nonresident aliens (NRAs), check to see if there are any RECURR records with payment information present in the current tax year. If so, enter the NRA country of legal residence and NRA tax withholding percentages (0 or 15 or 30) associated with the latest recurring rate records into the STAR NORECURRs. As applicable, all RECURRs and NORECURRs for a given tax year must contain the same country codes and NRA percentages or the automated tax statement program will believe there has been a change in this information and will create multiple tax statement sets.

If there are no RECURR records with payment information present in the current tax year, **do not** enter the NRA country of legal residence and NRA tax withholding percentages in the STAR NORECURRs.

16. Some recoveries should be posted to the Taxation Accounting System (TAS) gross of (before) or net of (after) certain deductions. The most common determinations involve income tax withholding amounts and Supplementary Medical Insurance Benefits (SMIB) premium deductions. Posting recoveries gross or net of tax withholding and SMIB depends on the following:
- If recovery is made in the year of payment issue
  - If recovery is made in a year after the year of payment issue
  - If the reason for recovery is death
  - If the reason for recovery is something other than death

For specific information, see TOM 20 Exhibit 5, Posting TAS Recoveries of Payments Gross and Net of Tax Withholding and Gross and Net of SMIB.

### **20.50 Simplified Accrual Tax Accounting Effective Tax Year 1994 – Merge and Cross Component Recovery Processing**

Prior to tax year 1994, we captured gross component payment and repayment amounts for taxable and nontaxable periods. For taxable periods, we accounted for each tax year separately. This required the itemization and storage of a phenomenal amount of information. It sometimes resulted in tax accounting, tax withholding, and tax reporting of amounts that were notably different than amounts actually received by annuitants.

Effective with tax year 1994, we've applied a simplified approach to accrual tax accounting. This approach applies a cash accounting basis to award processing. We account for net component payment and repayment amounts by taxable and nontaxable periods. For taxable periods, we do not account for each tax year separately, but account for them as they must be reported to the Internal Revenue Service. Simplified tax accounting requires less itemization and storage of data, and more closely reflects agency funds accounting.

The following principles apply to merge and cross component recovery processing. Merge and cross component recovery processing applies only to accrual award transactions effective with tax year 1994 and later.

1. The merge occurs only within a component.
2. Cross component recovery occurs only across or between components.

3. Accrual accounting captures underpayments and overpayments. We create repayments from a combination of underpayments and overpayments.
4. Pre-1984 repayments may be merged with post 1983 payments.
5. Pre-1984 payments may not be merged with post 1983 repayments.
6. If a component's underpayments are greater than or equal to the amount of that component's overpayments, then the amount of that component's repayments is equal to the amount of that component's overpayments. (If PDs are  $>$  or  $=$  OPs, then REPDs = OPs.)
7. If a component's underpayments are less than the amount of that component's overpayments, then the amount of that component's repayments is equal to the amount of that component's payments. (If PDs are  $<$  OPs, then REPDs = PDs.)
8. Positive workers compensation offset amounts attributable to the SSEB portions of tier 1 are taxed as SSEB payments. Within an accrual award transaction, positive and negative workers compensation offset amounts attributed to SSEB may first be merged with other positive and negative workers compensation offset amounts attributable to SSEB, and may then be merged with SSEB overpayments and underpayments.
9. The hierarchy of cross component overpayment recovery within a new accrual payment is shown below. This hierarchy is applied **after** the merge of overpayments and underpayments within components. It is applied when an overpayment within the new accrual is not fully recovered. It does not apply to accrual recoveries of previously established overpayments.

**First**

- a. Any NSSEB from tier 2 and/or any tier 2 from NSSEB

**Then**

- b. Pre-1984 Tier 2
- c. Pre-1984 VDB
- d. Pre-1984 Tier 1
- e. Post 1983 Tier 2
- f. Post 1983 VDB
- g. 1984-1985 Tier 1

- h. 1986-YR3 NSSEB
- i. 1986-YR3 SSEB
- j. YR2 NSSEB
- k. YR2 SSEB
- l. YR1 NSSEB
- m. YR1 SSEB
- n. CY NSSEB
- o. CY SSEB

**NOTE 1:**

The supplemental annuity is not listed above. The supplemental annuity may be considered only if there is an award activity transfer of funds from either the RR account to the SUPP account or from the SUPP account to the RR account, and then only for the amount transferred.

**NOTE 2:**

This hierarchy was designed to recover older overpayments first in contributory pension, non-contributory pension, and SSEB order. Recovering them in this particular component order allows us to report what are probably more advantageous repayments ahead of less advantageous repayments.

See TOM 20 Exhibit 3, Simplified Tax Accounting Effective Tax Year 1994 – Merge and Cross Component Recovery Processing, for examples of the application and restrictions in applying this processing.

**20.55 Retroactive Decisions that Affect Annuity Component Entitlement**

The following principles apply to retroactive decisions that have a tax impact.

1. A period of disability (DF) granted or terminated retroactively within the year of the DF onset decision date or DF termination decision date should be considered in any tax statement released for the year of the DF onset or DF termination decision date.
2. A period of disability (DF) onset granted or terminated December 1, 1992 or later that retroacts into a year prior to the year of the DF onset decision date or DF termination decision date is not a basis for release of corrected annual tax statements for any prior tax year now covered by the DF onset or DF

termination decision date. This is true even if corrected tax statements are requested by the beneficiary.

3. A DF onset or DF termination granted December 1, 1992 or later that retroacts into a year prior to the year of the DF onset decision date or DF termination decision date may be the basis for release of Forms TXL-120 DF that re-characterizes the composition of the tier 1 considering the DF onset or DF termination date. The letter may be used by the annuitant as the basis for amending his or her Federal income tax returns for any affected years.

**EXCEPTION:**

Whenever a DF onset was granted or terminated December 1, 1992 or later, but (1) the DF information updated to TAS was erroneous, or (2) the DF information was updated to TAS in a year **after** the year of the DF onset decision date or DF termination decision date, corrected tax statements should be issued, as appropriate, for the year of the DF onset or termination decision date and later. Original or corrected Forms TXL-120 DF should be issued, as appropriate, for years covered by the DF onset or DF termination that retroact **earlier** than the year of the DF onset decision date or DF termination decision date.

These corrected tax statements and original or corrected Forms TXL-120 DF should make tax statement reporting and Form TXL-120 DF information consistent with what would have been reported or released if the DF information had been updated to TAS both correctly and timely.

4. A period of disability (DF) onset granted or terminated prior to December 1, 1992 is basis for release of corrected annual tax statements for any years covered by the DF onset or termination decision. However, because years before 1992 are not open tax years with the IRS, we would not initiate release of corrected tax statements for these years.
5. When the RRB and SSA both grant a disability freeze and the DF onset dates are different, use the RRB DF onset date for tax accounting purposes.
6. Periods of disability (DFs) were granted on the basis of drug and alcohol abuse (DAA) to individuals who filed disability applications prior to January 1, 2008. Individuals who file disability applications on or after January 1, 2008 may be rated disabled, but will not be granted DFs based on DAA. Tier 1 amounts paid to these individuals prior to retirement age will be taxed as NSSEB.
7. Annuity formula conversion accruals are reportable by component in the year of the conversion. OM to RR, RR to OM, and age OM to DIB OM conversions that retroact into a year prior to the year of the conversion transaction is not a basis for release of corrected annual tax statements for



any prior tax year now covered by the annuity formula conversion. Any retroactive period effective for a year prior to the year of the conversion is part of the accrual associated with the conversion transaction, and should be considered in the tax statement issued for the year of the conversion transaction.

a. RR to OM Conversions

Only RR formula SSEB previous payments may be merged with OM formula SSEB accrued payments, thereby reducing the reportable OM formula SSEB accrual payment. RR formula NSSEB, tier 2, and VDB previous payments recovered from OM formula SSEB accrued payments are reportable as NSSEB, tier 2, and VDB repayments in the year of the annuity formula conversion.

b. OM to RR Conversions

Only OM formula SSEB previous payments may be merged with RR formula SSEB accrued payments, thereby reducing the reportable SSEB RR formula accrual payment. OM formula SSEB previous payments recovered from RR formula NSSEB, tier 2, and VDB accrued payments are reportable as SSEB repayments in the year of the annuity formula conversion.

c. RR to DIB OM Conversions or age OM to DIB OM Conversions

These may warrant release of Forms TXL-120 DF for prior tax years under principle 2, above. However, a Form TXL-120 DF will not cover rates payable under the DIB OM. It will cover tier 1 rate(s) payable under the RR formula or rate(s) payable under the age OM formula (whatever was actually paid) in the prior year now covered by the DF.

8. Effective with any tax statements prepared January 1, 2002 and later, reportable payments and repayments associated with periods covered by RRA annuity application cancellations are reported for the year in which they occur. This applies to tax statements prepared for any tax year, including years before 2002. We no longer suppress current year reporting of these amounts, nor do we issue prior year corrected statements to zero out these amounts.
9. Whenever we reallocate component payment amounts, we may need to reallocate component deduction amounts associated with the original payment amounts. See TOM 20.75, Reallocation of Annuity Payments and Deductions, for additional information.

10. When periods of disability (DF) are granted or terminated **and** tier 1 overpayments exist in the records **and** tier 1 repayments are involved, the DF information **may or may not** affect how tier 1 repayments are reported.
- a. The DF Onset or Termination Effective Date is **Equal to or Earlier than** the Tier 1 Overpayment Effective Date, and the DF Onset or Termination Continues Throughout the Entire Tier 1 Overpayment Period.
- 1) Special Forms TXL-120 DF Used When Tier 1 Repayments are Involved  
  
Tier 1 repayments **may** be re-characterized on Forms TXL-120 DF considering the DF onset or DF termination date.
  - 2) Tier 1 Repayments Posted to TAS and Reported on Tax Statements  
  
Tier 1 repayments **may not** be re-characterized on TAS to consider the DF onset or DF termination date. We must continue to capture and report tier 1 repayments as we reported the overpaid tier 1 payments. We do not know who does or does not amend prior year tax returns to consider the DF information.
- b. The DF Onset or Termination Effective Date is **Later Than** the Entire Tier 1 Overpayment Period.
- 1) Special Forms TXL-120 DF Used When Tier 1 Repayments are Involved  
  
Tier 1 repayments **may not** be re-characterized on Forms TXL-120 DF considering the DF onset or DF termination date. The tier 1 overpayment period is not impacted by the DF.
  - 2) Tier 1 Repayments Posted to TAS and Reported on Tax Statements  
  
Tier 1 repayments **may not** be re-characterized on TAS to consider the DF onset or DF termination date. The tier 1 overpayment period is not impacted by the DF.
- c. The DF Onset or Termination Effective Date is **in the Middle of** the Tier 1 Overpayment Period.
- 1) Special Forms TXL-120 DF Used When Tier 1 Repayments are Involved  
  
Cases are to be referred to PAS for instructions.
  - 2) Tier 1 Repayments Posted to TAS and Reported on Tax Statements

Cases are to be referred to PAS for instructions.

## 20.60 Federal Income Tax Withholding

The following principles apply to tax withholding forms and tax withholding amounts associated with RRA annuity payments.

1. Federal income taxes are calculated and withheld from both recurring and nonrecurring Social Security Equivalent Benefit (SSEB), Non-Social Security Equivalent Benefit (NSSEB), tier 2, Vested Dual Benefit (VDB), and supplemental annuity payments.
2. When annuity payments are determined to be not due, amounts overpaid include any income taxes withheld from payments in any year prior to the annuity suspension or termination accounting date year.
3. RRA due process rules do not apply to Federal income tax withholding. Annuitants are not entitled to a 30 day advance notice of Federal income tax withholding increases that will decrease net annuity rates. Incorrect tax withholding rates should be corrected as soon as possible.
4. Tax withholding election certificates used for individuals taxed as U.S. citizens are:
  - a. Forms RRB W-4P, *Withholding Certificate for Railroad Retirement Payments*, are used by individuals taxed under U.S. citizen rules to elect tax withholding or elect no tax withholding from NSSEB, tier 2, VDB, and supplemental annuity payments.
  - b. Forms IRS W-4V, *Voluntary Withholding Request*, are used by individuals taxed under U.S. citizen rules to elect tax withholding or elect no tax withholding from SSEB payments.
  - c. Forms RRB-1001, *Nonresident Questionnaire*, are used by nonresident individuals to identify their country of citizenship and their country of residence for tax purposes. Information provided on this form allows us to determine if U.S. citizen rules apply to individuals.
5. Tax withholding election certificates used for individuals taxed as nonresident aliens are:
  - a. Forms RRB-1001, *Nonresident Questionnaire*, are used by nonresident individuals to identify their country of citizenship, their country of legal residence for tax purposes, and to claim exemption from full tax withholding under any applicable income tax treaty in effect between their country of residence for tax purposes and the United States. Information provided on this form allows us to determine if NRA rules apply to individuals.

- b. Forms RRB-1001 Buff, *Nonresident Questionnaire*, are used by nonresident alien individuals to renew tax treaty exemption claims. These claims provide reduced income tax withholding under income tax treaties in effect between their country of residence for tax purposes and the United States. Renewals are effective until December 31 of the third year following the year a properly completed renewal form is processed at an RRB office.
6. RRB personnel **may not pre-complete** the United States Taxpayer Identifying Number for auxiliary applicants/annuitants and the Signature item for any applicant/annuitant on tax withholding certificate Forms RRB W-4P, Forms RRB-1001, Forms RRB-1001 Buff, and Forms IRS W-4V before providing them to applicants/annuitants. RRB personnel may pre-complete any other items.
7. RRB personnel **may not alter ANY items** on Forms RRB W-4P, Forms RRB-1001, Forms RRB-1001 Buff, and Forms IRS W-4V after they are received from applicants/annuitants.
8. We **may not** accept a “NO” tax withholding election on Form RRB W-4P if:
  - a. the individual’s United States taxpayer identifying number is not provided on the form, or
  - b. the individual resides outside the 50 United States, Washington D.C., Guam, and the Commonwealth of the Northern Mariana Islands.
9. We **may not** accept a “YES” tax treaty exemption claim on Form RRB-1001 or Form RRB-1001 Buff if:
  - a. the individual’s United States taxpayer identifying number is not provided on the form, or
  - b. the individual’s country of residence for tax purposes is not provided on the form.
10. Tax treaty exemption claims affect future payments only. Original and renewal tax treaty exemption claims are not retroactive.
11. We apply income tax withholding using withholding election forms/ certificates and, in the absence of these certificates, we apply mandatory U.S. citizen and mandatory NRA tax withholding as required by the Internal Revenue Code.
12. We calculate and withhold taxes from daily payment award activities and the annual cost of living mass adjustment. We have a monthly TAS Recert program that selects annuitants on the basis of newly filed U.S. citizen and NRA withholding certificates, attainment of retirement age under the SSA,

grants or terminations of periods of disability, receipt of new SSEB PIAs, and manually requested selections.

13. In a given tax year, if we under-withheld income taxes from a NRA annuitant, and if we corrected the recurring tax withholding rate to apply 30 percent tax withholding, and if we secured a properly completed Form RRB-1001 or RRB-1001 Buff with a tax treaty exemption claim, we should delay entry of the Form RRB-1001/RRB-1001 Buff into TAS. The IRS requires we recover any under-withheld NRA taxes in the year of the under-withholding. Delaying entry of the tax treaty exemption claim may, depending on the timing, allow over-withholding to occur so we can recover all or part of the under-withholding for the agency's trust funds. Such recovery actions may not carry over into the next tax year.

### **20.65 Federal Income Tax Deposits and Tax Deposit Adjustments**

1. Tax withholding amounts are deposited at the U.S. Treasury for the Internal Revenue Service (IRS) on behalf of our annuitants.
2. Tax deposit information is tracked internally at the RRB by U.S. Citizen and Nonresident Alien Accounts, and by Regular Annuity and Supplemental Annuity Accounts.
3. The source of RRB Federal income tax deposit money is:
  - a. Monthly Check Issue, covering tax withholding from recurring annuity payments.
  - b. Post period OPOs, which are also Monthly Check Issue payments, covering tax withholding from recurring annuity payments.
  - c. The TAS daily update program, DELTA, for:
    - 1) Tax withholding from nonrecurring annuity payments (excluding the post period OPOs cited above), and
    - 2) Tax withholding adjustments associated with returned recurring and nonrecurring annuity payments.
  - d. The TAS correction process TAXCOR, covering tax withholding adjustment amounts associated with Federal income tax withholding refunds.
  - e. STAR, a TAS process covering tax withholding adjustments associated with cash refund repayments.
4. TAS fields that impact tax deposits are positive and negative tax withholding amounts by annuity components, positive and negative tax refund amounts

by annuity components, and tax deposit codes that identify the tax deposit account (U.S. citizen or NRA) affected.

5. Tax deposit credits increase tax deposits. Tax deposit debits decrease tax deposits.
6. Whether tax withholding amounts or tax refund amounts are positive or negative determines whether the adjustments credit or debit the agency's tax deposits.

<b><u>Positive and Negative Tax Withholding and Tax Refund Amounts</u></b>	<b><u>Effect on Tax Deposit Totals</u></b>
Positive (+) Tax Withholding Amounts	Credit (Increase)
Negative (-)Tax Withholding Amounts	Debit (Decrease)
Positive (+)Tax Refund Amounts	Debit (Decrease)
Negative (-)Tax Refund Amounts	Credit (Increase)

7. When tax withholding is refunded during a tax year, the agency's tax deposits are adjusted for the refund. This is done by processing a TAXCOR correction NORECURR showing positive tax withholding refund amounts by annuity components and identifying the tax deposit account from which the taxes were **originally withheld**.
8. When mandatory or elected U.S. citizen taxes are withheld from a NRA tax refund, the agency's tax deposits must not only be adjusted for the NRA tax refund, they must also be adjusted for the amount of taxes being withheld as U.S. citizen taxes. Two TAXCOR correction NORECURRs must be processed on different days to adjust the agency's tax deposits before the close of the tax year.
  - a. One TAXCOR NORECURR should be processed with positive (+) tax refund amounts entered by annuity components, and identifying the NRA tax deposit account. The positive tax refund amounts will credit (decrease) the NRA tax deposit account.
  - b. A second TAXCOR NORECURR should be processed on a different day with positive (+) tax withholding amounts entered by annuity components, and identifying the U.S. citizen tax deposit account. The positive tax withholding amounts will debit (increase) the U.S. citizen account.

9. The RRB files annual income tax returns to report Federal income taxes withheld and deposited with the U.S. Treasury. Policy and Systems, PAS, files the following:
  - a. IRS Form 945, Annual Return of Withheld Federal Income Tax, to report U.S. citizen tax withholding and deposits.
  - b. IRS Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, to report NRA tax withholding and deposits.

## 20.70 Federal Income Tax Refunds

1. Refunds of current year NRA taxes withheld because of RRB errors should be made whether or not they are requested by the annuitant.
2. Refunds of current year assumed NRA taxes withheld from U.S. citizens may be made if requested by the annuitant, but may not exceed the appropriate mandatory and/or elected U.S. citizen taxes applicable to the annuity payments from which the NRA taxes were withheld.
3. When **NRA** income tax refunds are issued to either U.S. citizens or NRAs, **bypass** automated tax statement processing for the year of the tax refund. The automated annual statement process cannot at this time create accurate tax statements involving NRA tax refunds.
4. Refunds of current year U.S. citizen taxes may be made only if one of the following is true:
  - a. The annuitant requests a refund and a RRB error was involved, or
  - b. The annuitant requests a refund and dire need is involved, or
  - c. The annuitant requests a refund and mandatory (not elected) NSSEB taxes were withheld from an annuity and a period of disability (DF) is awarded in the current year and the tier 1 payments from which we withheld the NSSEB taxes will be reported on our tax statements as SSEB payments.
5. We restrict processing U.S. citizen tax refunds because of the extra work doing so puts on TCIS-TS. It's reasonable to assume U.S. citizens with tax withholding will file income tax returns. They can secure any over-withheld income taxes from the IRS by filing returns. The three exception situations cited in principle 4 above allow us to pay tax refunds to U.S. citizens in situations in which doing so would clearly provide good customer service.
6. When income tax refunds are made to annuitants, the agency's tax deposits must be adjusted for the refund. A TAXCOR correction NORECURRE must be created before the close of the tax year showing positive (+) tax refund

amounts by annuity components, and identifying the tax deposit account (U.S. citizen or NRA) into which the taxes were deposited when **originally** withheld. Positive tax refund amounts debit, or decrease, the tax deposit account identified on the TAXCOR NORECURR.

### **EXCEPTION 1:**

A TAXCOR correction NORECURR should not be created to adjust the agency's tax deposits if an income tax refund is made after the close of the tax year.

7. In limited situations, income tax refunds may be made after the close of the tax year. TCIS-TS may initiate these refunds, but Policy and Systems, PAS must approve them. Such refunds will only be approved if all four of the following conditions are true:
  - a. A RRA income tax statement showing the over-withheld income tax will not be issued to the annuitant, and
  - b. The RRB's income tax return covering the agency's tax deposits for the tax year just closed has not been filed with the IRS, and
  - c. A manual tax deposit adjustment will be made by P&S, PAS to the RRB's income tax return totals covering the income tax refund paid after the close of the tax year, and
  - d. Manual tax statement(s) will be issued with the income tax refund considered as having been paid in the year for which the statement(s) are issued.

## **20.75 Reallocation of Annuity Payments and Deductions**

1. Component payment amounts are reallocated for a number of reasons – Social Security Equivalent Benefit (SSEB) attainments, regular annuity Railroad (RR) or Overall Minimum (OM) formula conversions, period of disability (DF) grants and terminations, findings that annuitants are incarcerated felons or otherwise not entitled to receive social security benefits for reasons identified in the Social Security Act, discovery of computation errors, et cetera. Whenever component payment amounts are reallocated, component deduction amounts may also need to be reallocated. Deductions that should be evaluated are:
  - a. Work Deduction Amounts
  - b. Waiver Amounts
  - c. Partition Deduction Amounts



- d. Actuarial Adjustment Amounts
  - e. Partial Withholding or Full Withholding or Accrual Withheld Recovery Amounts or Cash Refund Amounts
  - f. Tax Withholding Amounts
2. P&S PAS may have set current year tier 1 reallocations for felons and other individuals not entitled to receive SSA benefits. **Do not** take immediate tier 1 reallocation action on a record **if any one** of the following TAS conditions exists:
- Retirement Records With EE SSEB Insured Status Codes of 2 in TAS and Employee SSA Insured Status Codes of 1 in PREH.
- OR**
- Retirement and Survivor Records With ANNTAXR Bypass Codes of 009.
- OR**
- Retirement and Survivor Records With ANNTAXR OPO Bene Codes of 001.

**a. Incarcerated Felons and Others on the Felon's Wage Record**

Check the latest list of known felons to see if the record is listed and the felon is still incarcerated. If so, and if the employee is the felon, do not modify the TAS tier 1 settings. Maintain NSSEB for the felon, but not for his or her auxiliary annuitants/ beneficiaries, unless NSSEB applies without regard to the employee's felon status. Auxiliary annuitants are to be treated as they would if the employee were not an incarcerated felon.

If the felon is not the employee, do not modify the TAS tier 1 settings. Maintain NSSEB for the felon, but not for other annuitants/ beneficiaries drawing on the wage record.

**b. Deportees From the United States and Others on the Deportee's Wage Record**

Check the latest list of individuals deported from the United States. If the deported individual is the employee, if TAS tier 1 settings are for NSSEB, do not modify the TAS tier 1 settings. Maintain NSSEB for the deportee and for any auxiliary annuitants/beneficiaries. Auxiliary annuitants are to be treated for tax purposes in the same manner as the deported employee/ wage earner.

If the deported individual is not the employee, do not modify the TAS tier 1 settings. Maintain NSSEB for the deported individual, but not for other annuitants/ beneficiaries drawing on the wage record.

**c. Other Individuals Not Payable at SSA**

Do not remove the TAS tier 1 settings. P&S PAS should provide handling instructions for any affected employee, spouse, divorced spouse, survivor, parent, or partition or garnishment payee. Instructions should include:

- 1) Directions for individuals not entitled to SSA benefits or those now re-entitled to SSA benefits, and
  - 2) Directions for any other beneficiaries receiving benefits on the wage record.
3. Follow the general Order of Deductions rules in TOM 20.40, Annuity Deductions, when reallocating deduction amounts. Also see TOM 20 Exhibit 4, The Order of Deductions and How It Affects Taxable Component Payment Amounts, for an example.
  4. Reallocate component specific deductions if the component payments with which they were associated are being reallocated. These are work deduction amounts, some waiver amounts depending on the waiver code involved, and legal process partition deduction amounts.
  5. Re-prorate non-component specific deductions over reallocated regular annuity component payment amounts. These are some waiver amounts, depending on the waiver code involved, and actuarial adjustment amounts.
  6. Repayments should always be allocated to overpaid annuity components as those overpaid payment amounts were reported to the IRS. If original and corrected tax statements were released for the overpayment period, use the overpaid payments as shown on the latest tax statements we released.

**EXCEPTION:**

Pre-1984 tier 1 repayments may be reported as pre-SSEB repayments even though pre-1984 tier 1 payments were not reported to the IRS as taxable amounts.

7. If an overpayment being recovered is confined to the current tax year and the payments have never been reported to the IRS, treat recovered amounts as follows:
  - a. Current Year RECURRE Record Amounts
    - Allocate positive current year repayment amounts to recover current year RECURRE record payment amounts.

- Allocate negative deduction amounts to reverse positive deduction amounts posted to the original recurring rate record.
- b. Current Year NORECURRE Record Amounts
- Allocate negative payment amounts by designated tax years to recover current year NORECURRE record payment amounts. These include both returned payment NORECURREs and recovered accrual payment NORECURREs. See TOM 20.45, Annuity Recoveries – Positive Repayments and Negative Payments, for more information about negative payments.
  - Allocate negative deduction amounts to reverse positive deduction amounts posted to the original NORECURRE record.
  - Allocate positive deduction amounts to reverse negative deduction amounts posted to the original NORECURRE record. A common example of this would be negative repayment amounts posted in original accrual after overpayment recovery NORECURREs. Reverse a negative repayment posting by processing a positive repayment posting.
8. If all or part of an overpayment being recovered was paid in a prior tax year and reported to the IRS, and if those payments will not be changed on corrected prior year tax statements, then repayment amounts should reflect the overpaid payment amounts as reported to the IRS. If that's the case and current year component payment amounts are being reallocated, **do not** reallocate repayment amounts to conform to the reallocated payment amounts.

For Example:

NSSEB tier 1 was overpaid in a prior tax year and is currently being recovered by partial withholding. Current year tier 1 payments will be reallocated to SSEB, but corrected prior year tax statements will not be issued. Reallocate current year tier 1 payments to SSEB, but do not reallocate current year tier 1 partial withholding repayments to SSEB. Tier 1 repayments should be allocated to NSSEB because the prior year tier 1 payments being recovered are and will remain reported as NSSEB.

**NOTE 1:**

We don't know if annuitants use TXL-120 DF letters to file amended Federal income tax returns. Always assess repayments to component payments as we last reported those payments to the IRS. Use STATTAXRs to determine how we last reported the payments. Never presume the annuitant filed amended tax returns.

9. For U.S. citizen rule annuitants, we report each component separately to the IRS. Each component should be evaluated separately when determining whether tax withholding should be reallocated.

a. When to Reallocate U.S. Citizen Tax Withholding

If tax withholding for any component reported to the IRS is greater than zero, and if that component's net taxable paid amount for the tax statement period is equal to zero, tax withholding needs to be reallocated.

A component's net taxable paid amount is the amount that will be reported on RRA tax statements and is often less than a component's gross paid amount. Follow the order of deductions cited in TOM 20.40, Annuity Deductions, to determine a component's net taxable paid amount.

b. When Not to Reallocate U.S. Citizen Tax Withholding

Do not reallocate a component's tax withholding if it exceeds the component's net taxable paid amount in that RECURRE or NORECURR so long as the component's net taxable paid will be greater than zero on the annual tax statement.

c. Never

- 1) Reallocate excess regular annuity tax withholding to the supplemental annuity.
- 2) Reallocate excess supplemental annuity tax withholding to the regular annuity.
- 3) Reallocate excess regular annuity pension (NSSEB, tier 2, VDB) tax withholding to SSEB unless the regular annuity is SSEB only or the OM formula applies.

d. Always

- 1) Reallocate any NSSEB to tier 2 first, if available.
- 2) Reallocate any tier 2 to NSSEB first, if available.

NSSEB and tier 2 are both paid from the Railroad Retirement (RR) Account, so reallocations should be made between these two components whenever possible.

e. Modify U.S. Citizen Tax Withholding in TAS

When tax withholding is reallocated during a tax year, and only U.S. citizen tax withholding is involved, TAS tax withholding fields need to be adjusted so the tax statements are correct. Process a TAXCOR correction NORECURRE showing negative tax withholding amounts and positive tax withholding amounts reflecting the reallocations, and equaling the total of taxes actually withheld. The adjustment should include the tax deposit account from which the taxes were originally withheld.

f. Both U.S. Citizen Rule and NRA Rule Taxes are Involved in the Same Record

Do not combine U.S. citizen rule tax adjustments and NRA rule tax adjustments on the same TAXCOR correction NORECURRE. Process them on separate TAXCOR correction NORECURREs that will be updated to TAS on different days.

g. Tax Deposits

When U.S. citizen regular annuity tax withholding is reallocated during a tax year, the agency's tax deposits do not need to be adjusted for the reallocation.

## 20.80 Who Should Receive RRA Income Tax Statements

The following principles apply to determinations of who should receive tax statements for reportable payments and repayments issued by the Railroad Retirement Board.

1. Tax statements should be issued to the person who received the payments, or to his or her RRB recognized representative payee. Tax statements should be issued to the person who made the repayments, or to his or her RRB recognized representative payee.

### **EXCEPTION 1:**

OM assignment payments should be attributed to the employee, not to the payee.

### **EXCEPTION 2:**

Legal process garnishment payments should be attributed to the person whose annuity was garnished, not to the payee.

### **EXCEPTION 3:**

Payments associated with misappropriation of funds may or may not have been reported as paid to the person who negotiated the payments. Do not

correct tax statements solely for the purpose of reporting payments as received by another individual who was found to have misappropriated an annuitant's funds.

2. Repayments associated with misappropriation of funds should be attributed to the person to whom we reported the taxable payments, even if that person is not the one who made the repayments.
3. Repayments associated with a beneficiary overpayment that is repaid by a check written off a joint checking account belonging to the overpaid annuitant or beneficiary and one or more other individuals should be attributed to the overpaid annuitant or beneficiary. This is true even if the person who signed the check is not the overpaid annuitant or beneficiary.
4. Reportable repayment amounts involving returned check or EFT payments should be associated with the tax record/annuitant associated with the original payment record.
5. Payment and repayment amounts attributable to an individual who died should be addressed to the deceased annuitant, with or without the notation, "Deceased" after his or her name.
6. Tax statements representing accrued annuity payments made to the executor of an estate or the administrator of an estate or representing repayments made by the executor of an estate or the administrator of an estate should be issued "For the Estate of" the deceased annuitant, and should contain the estate's taxpayer identifying number. This would be an Employer Identifying Number (EIN).

### **20.85 Content and Rules About RRA Income Tax Statements**

1. Various tax statement forms have been used over the years to report taxable RRA payments. For more information about these forms, see TOM 20 Exhibit 2, History of Tax Statement Forms Used to Report Federally Taxable RRA Payments and Repayments.
2. By law, RRA tax statement forms must be issued (postmarked) to U.S. citizen recipients of federally taxable income no later than January 31 of the year following the tax year being reported. RRA tax statement forms must be issued (postmarked) to NRA recipients of federally taxable income no later than March 15 of the year following the tax year being reported.
3. By law, RRA tax statement forms must include the following United States Taxpayer Identifying Numbers:
  - a. The RRB's Employer Identification Number (EIN).

- b. If the payee is an individual, the individual's Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN).
  - c. If the payee is an estate or the administrator of an estate, the estate's EIN.
4. Always bypass automated tax statement processing whenever:
  - a. A NRA income tax refund is issued to either a U.S. citizen or a NRA.
  - b. A tax withholding issue has not been resolved and will not be properly reflected in TAS by tax statement cutoff for the current tax year.
5. If original tax statement forms contain one or more errors in fact, we issue corrected tax statement forms for any tax years the IRS considers open that are affected by the error(s). Open years are those for which the IRS will still accept original or amended tax returns. Prior to April 15th of any given tax year, these are the four most recent prior tax years. After April 14th of any given tax year, these are the three most recent prior tax years.
6. If replacements of available original or corrected tax statement forms are requested, we issue duplicate forms.
7. Effective with any tax statements prepared January 1, 2002 and later, reportable payments, repayments, and tax withholding amounts associated with periods covered by RRA annuity application cancellations are reported for the year in which they occur. This applies to tax statements prepared for any tax year, including years before 2002. We no longer suppress current year reporting of these amounts, nor do we issue prior year corrected statements to zero out these amounts.
8. NRAs or assumed NRAs whose TAS records reflect a change in country code or a change in NRA tax withholding percentages will receive more than one set of original NRA tax statement forms for that tax year.
9. Individuals who are initially taxed under U.S. citizen rules and later under NRA or assumed NRA rules in a given tax year will receive more than one set of original tax statement forms. This situation usually involves an individual residing in the United States who later moves outside the United States without providing us with citizenship and country of legal residence for tax purposes information.
10. Individuals who are initially taxed under assumed NRA rules and later under U.S. citizen rules will receive more than one set of original tax statement forms unless their TAS records are modified. This situation usually involves individuals residing outside the United States who have not provided us with citizenship and country of legal residence for tax purposes information.

Once we establish individuals are entitled to U.S. citizen rules and would have been entitled to them for the entire tax year, we should determine if a single set of U.S. citizen rule tax statements can be issued. If a refund of NRA taxes has not been issued, we can modify TAS to remove NRA information and replace it with U.S. citizen information. In these instances, we can issue a single set of U.S. citizen rule tax statements. If this is not the case, we should bypass automated tax statement processing.

11. IRS Form 1099-C is used to report cancellation of debt of amounts of \$600 or more, including overpayment principal, interest, penalty, and administrative costs. These cancellation of debt amounts are associated with payments that were never reported to the IRS as taxable paid amounts and that are waived, compromised, or otherwise deemed permanently uncollectible by the RRB. IRS Form 1099-C is issued for the tax year in which the debt is waived, compromised, or otherwise deemed permanently uncollectible.
12. We issue TXL-120 DF letters covering the potential re-characterization of prior year tier 1 amounts due to retroactive period of disability (DF) grants. We don't know whether or not an individual files amended income tax returns for those years. Therefore, always base any corrected tax statement totals for payments issued before the year of the DF onset decision date **without consideration of the DF.** For tax statement reporting purposes, the DF does not exist prior to the year of the DF onset decision date.

**EXCEPTION 1:**

If we issued corrected tax statements that included consideration of the DF for any year prior to the year of the DF onset decision date, any additional corrected tax statements (Corrected Correcteds) for those tax years should consider the DF.

13. Form RRB-1099 is issued to individuals taxed as U.S. citizens and covers reportable SSEB amounts in the tax statement period. Any 1984-1985 pre-SSEB amounts are identified as SSEB amounts. For a given tax year or portion of a given tax year, it contains:
  - a. Gross SSEB payments issued or credited as issued in the tax statement period. Amounts not issued because of full withholding or partial withholding for overpayment recovery are amounts credited as issued.
  - b. SSEB repayments reported, as applicable, for recovery of any post 1985 SSEB repayment, any 1984-1985 pre-SSEB repayment, and any pre-1984 tier 1 repayment in the tax statement period. Pre-1984 tier 1 repayments represent payment amounts never reported to the IRS as taxable.



- c. SSEB net payments for the tax statement period, which equal the gross SSEB payments less any SSEB repayments. If net payments are negative, they are shown in parenthesis ( ).
  - d. SSEB payments issued in the tax statement period that were paid for the first prior tax year.
  - e. SSEB payments issued in the tax statement period that were paid for the second prior tax year.
  - f. SSEB payments issued in the tax statement period that were paid for years before the second prior tax year.
  - g. SSEB federal income taxes withheld in the tax statement period.
  - h. Workers' compensation deduction amounts that are included in the gross SSEB payment amount for the tax statement period.
  - i. Any SMIB premium (Part B and/or C, and/or D) deductions made from RRA annuity payments issued for the tax statement period.
14. Form RRB-1042S is issued to individuals taxed as NRAs and covers reportable SSEB amounts in the tax statement period. Any 1984-1985 pre-SSEB amounts are identified as SSEB amounts. For a given tax year or portion of a given tax year, it contains:
- a. Gross SSEB payments issued or credited as issued in the tax statement period. Amounts not issued because of full withholding or partial withholding for overpayment recovery are amounts credited as issued.
  - b. SSEB repayments, as applicable, for recovery of any post 1985 SSEB repayment, any 1984-1985 pre-SSEB repayment, and any pre-1984 tier 1 repayment in the tax statement period. Pre-1984 tier 1 repayments represent payment amounts never reported to the IRS as taxable.
  - c. Net SSEB payments in the tax statement period, which equal the gross SSEB payments less any SSEB repayments. If net payments are negative, they are shown in parenthesis ( ).
  - d. SSEB payments issued in the tax statement period that were paid for the first prior tax year.
  - e. SSEB payments issued in the tax statement period that were paid for the second prior tax year.
  - f. SSEB payments issued in the tax statement period that were paid for years before the second prior tax year.

- g. SSEB Federal income taxes withheld in the tax statement period.
- h. Workers' compensation deduction amounts that are included in the gross SSEB payment amount in the tax statement period.
- i. Any SMIB premium deductions (Part B and/or C and/or D) made from RRA annuity payments in the tax statement period.
- j. The country of residence for tax purposes for the tax statement period.
- k. The NRA tax withholding percentages applicable to the tax statement period. These may or may not be the tax withholding percentages actually applied to the tax statement period.

If correct NRA tax withholding did not occur and action was not taken to correct tax withholding for the period in question, the NRA tax withholding percentages should reflect the percentages that **should have been applied**, not the percentages that were applied. Tax withholding amounts **actually** withheld or credited as withheld should be shown on the statement. In these instances, the IRS has information necessary to determine that taxes were either over-withheld or under-withheld, and any follow-up is between the IRS and the annuitant.

15. Form RRB-1099-R is issued to individuals taxed as U.S. citizens or NRAs and covers reportable pension amounts in the tax statement period. For a given tax year or portion of a given tax year, it contains:
- a. Any applicable Employee Contribution (EEC) amount.
  - b. The contributory amount (NSSEB and tier 2) paid in the tax statement period.
  - c. The vested dual benefit paid in the tax statement period.
  - d. The supplemental annuity paid in the tax statement period.
  - e. The total gross pension paid in the tax statement period.
  - f. Pension repayments in the tax statement period. Pension repayments may be reported only if the payments recovered were previously reported as taxable. Current year repayments are netted from current year payments by posting them as current year positive repayments or as current year negative payments. Current year accrual recoveries should be posted as negative payments in the tax year in which they were originally paid. Negating accrual amounts includes posting negative deduction amounts.

**EXCEPTION:**

If an accrual contained any negative repayments, those amounts are reversed by posting them as positive repayments.

- g. Pension tax withholding in the tax statement period.
- h. SMIB premium deductions (Part B and/or C and/or D) made from RRA annuity payments in the tax statement period **if** a Form RRB-1099 or Form RRB-1042S is not being issued for that same period.
- i. For a NRA or assumed NRA, the country of residence for tax purposes for the tax statement period.
- j. The NRA tax withholding percentages applicable to the tax statement period. These may or may not be the tax withholding percentages actually applied to the tax statement period.

If correct NRA tax withholding did not occur and action was not taken to correct tax withholding for the period in question, the NRA tax withholding percentages should reflect the percentages that **should have been applied**, not the percentages that were applied. Tax withholding amounts **actually** withheld or credited as withheld should be shown on the statement. In these instances, the IRS has information necessary to determine that taxes were either over-withheld or under-withheld, and any follow-up is between the IRS and the annuitant.

16. The RRB provides the IRS with RRA tax statement information.

- a. Automated original U.S. citizen 1099 SSEB information is transmitted Using Connect:Direct over an encrypted Virtual Private Network (VPN) tunnel. This information is due by March 31 of the year following the tax statement year.
- b. Automated original NRA 1042S SSEB information and U.S. citizen and NRA 1099-R pension information by NSSEB, tier 2, VDB, and supplemental annuity components is transmitted via the Filing Information Returns Electronically (FIRE) system. This information is due by March 31 of the year following the tax statement year.

NRA Negative 1042S transmissions contain any net negative SSEB payments. NRA Negative 1099-R transmissions contain any net negative pension payments.

- c. Supplemental U.S. citizen SSEB information from manual original and corrected tax statements that was not included with the automated original information is transmitted using Connect:Direct. This information is due by August 1 of the year following the tax statement year.

- d. Supplemental NRA 1042S SSEB and U.S. citizen and NRA 1099-R tax statement information from manual original and corrected tax statements that was not included with the automated original information is transmitted using the FIRE system. This information is due by August 1 of the year following the tax statement year.
  - e. IRS Form 1096, *Annual Summary and Transmittal of U.S. Information Returns*, used to report the total amount of permanently cancelled debt reported on IRS Forms 1099-C is due by February 28 of the year following the tax statement year.
17. Archived RRA tax statement information is retained for various business needs. Those business needs and ease of access to the information should be considered before archiving tax statement information.

a. Repayment Reporting on Current and Open Year RRA Tax Statements

Pension repayments are only reportable on RRA tax statements if they represent recovery of payment amounts previously reported to the IRS as taxable. Over the years, we have varied reporting of pension payment amounts for a number of reasons including: 1) employee contribution recovery processing, 2) award processing constraints, 3) TAS update constraints involving one payment only awards, comp only awards, DF onset grant retroactivity, et cetera.

The only way to know what pension payment amounts we reported as taxable is to view the tax statement information itself. Many overpayments being recovered in current and open tax years actually occurred years ago. We must have access to tax statement information in order to properly report repayment information on current and open year tax statements.

b. Bureau of the Actuary Recurring Financial Interchange Project

The Financial Interchange section in the Bureau of the Actuary is responsible for evaluating the SSEB portion of RRB debt that is waived, compromised, or otherwise deemed permanently uncollectible by the RRB. Program Accounts Receivable System information is used in tandem with RRA tax statement information to determine the SSEB portion of these debts. The study results affect the amount of the ongoing credit to the RRB's Social Security Equivalent Benefit (SSEB) account for these debts. Access to tax statement information for the years being reviewed is vital to conducting the studies.

c. Internal Revenue Service Retention Requirements

The IRS requires retention of tax statement information for at least four years after the due date for filing income tax returns on any tax statement information issued by the RRB. Since the due date for filing tax returns on

most RRA tax statement information is April 15 of the year following the year of tax statement issue, the minimum retention period is generally considered to be five years after the year of tax statement issue.

#### 18. Current Availability of Archived Tax Statement Information

##### a. Tax Years Prior to 1984 – Supplemental Annuity Only

Tax statement information is available on microfilm in TCIS-TS for some years before 1984. The tapes are titled SAMIC and the tax years are designated. Supplemental annuities were reported on Forms G-1099 prior to 1984.

##### b. Tax Years 1984 Through 1988

Tax statement information is available on microfilm in TCIS-TS for tax years 1984 through 1988. There was a supplemental run of automated 1988 statements. If 1988 tax statement information is not found on the regular reels, check the reel marked “1988 Tax Statements Part 2”.

##### c. Tax Year 1989

Tax statement information for tax year 1989, previously available through an archived tax statement retrieval process, was allowed to lapse. It isn't available on any medium.

##### d. Tax Years 1990 Through 2005

Tax statement information (TAS STATAXRs) for tax years 1990 through 2005 was archived in 2013. We do not have a retrieval process in place to easily access copies of these records.

### 20.90 Adjusted Income Tax Withholding, Adjusted Income Tax Deposits, and Corrected RRA Tax Statements

1. You may credit a tax refund received net of tax withholding as if it were received gross of tax withholding in the year just closed **only if** the following two conditions exist:
  - a. Automated tax statement processing was either manually bypassed or bypassed by the year-end process, and a tax statement for the year in question **has not** been issued, and
  - b. The RRB's annual tax deposit returns **have not** been filed for the year just closed.

#### **NOTE 1:**

If crediting a recovery received for a closed tax year gross of tax withholding rather than net of tax withholding, prepare manual tax

statements containing affected payment amounts gross of tax withholding and decrease reportable tax withholding by the amount of the tax withholding credit. **Do not** process a TAXCOR NORECURRE to adjust TAS or the agency's tax deposits because the affected tax year is closed. Take this action only in collaboration with P&S PAS.

2. A corrected tax statement may show a decrease in tax withholding **only if** the tax withholding amount shown on the original tax statement or on a previously issued corrected tax statement **does not** represent taxes actually withheld from one or more payments and deposited with the U.S. Treasury in the tax year in question.
3. If we included tax withholding on a tax statement and the taxes were actually withheld from one or more payments and deposited with the U.S. Treasury, **any corrected tax statement issued MUST contain that tax withholding amount.** When a tax withholding amount is reported on a corrected tax statement, **the tax statement MUST also contain the payment that sustained the tax withholding (the payment from which the taxes were withheld).** This is true even if we received a cash refund or other recovery amount that wasn't considered on the original or a previously corrected tax statement. A corrected tax statement or a "corrected corrected" tax statement is, however, needed to report repayments and/or reduce payments associated with the unapplied cash refund or other recovery amount.

### 20.95 How RRB Trust Funds Are Impacted by the Taxation of RRA Annuities

RRB trust funds receive money from the U.S. Treasury due to Federal income taxation of RRA annuities.

1. Each year, the U.S. Treasury sends money to RRB trust funds based on initial projections of Federal income taxes that will be owed the IRS on railroad retirement annuity income for the current tax year. Treasury sends money in quarterly installments to the:
  - a. Social Security Equivalent Benefit (SSEB) Account for SSEB tier 1.
  - b. Railroad Retirement (RR) Account for NSSEB tier 1 and tier 2.
  - c. Dual Benefit Payments (DBP) Account for vested dual benefits.

#### **NOTE:**

Supplemental annuities have always been taxable under Federal income tax laws. Federal income taxes paid on supplemental annuities do not generate income for the RRB trust funds. That money stays in Treasury's General Fund.

2. Adjustments, or reconciliations, occur after the close of the tax year. For these adjustments, Treasury distinguishes between:
  - a. Federal **income taxes owed** on railroad retirement annuity income paid to those individuals taxed as U.S. citizens. Information is obtained from income tax returns filed with the IRS for prior tax years.
  - b. Federal **income taxes withheld** from railroad retirement annuity income paid to those individuals taxed as nonresident alien (NRAs). Tax withholding information is obtained from RRB Original tax statement tapes sent to the IRS in February for the previous tax year and from RRB Corrected tax statement tapes sent to the IRS in August for the previous and other prior tax years.

**NOTE:**

Funds sent to the SSEB account for NRA SSEB tax withholding serve as credits for the Social Security Administration (SSA), decreasing money SSA owes the RRB as part of Financial Interchange transfers.

### **20.100 Laws and Rulings Affecting RRA Taxation Processing**

The Internal Revenue Code, the Federal Tax Regulations, national legislation (Public Laws), IRS directives, LAW legal opinions, LAW advice memoranda, and management policy decisions explain how, why, and when RRA taxation processing evolved.

Federal tax provisions are not subject to review or waiver under the Railroad Retirement Act (RRA) because they are provisions of the Internal Revenue Code and Federal Tax Regulations, not the RRA. Legal opinions are secured when Public Laws affect RRA payments and the changes, in turn, impact RRA taxation processing.

For specific information, see TOM 20 Exhibit 1, History of Laws and Rulings Affecting RRA Taxation Processing. Income tax withholding tables usually change every tax year, and are not identified on the chart unless they result from legislation implemented after the beginning of a tax year.

### **TOM 20 Exhibit 1, History of Laws and Rulings Affecting RRA Taxation Processing**

The following chart contains laws and rulings that have had significant impacts on RRA taxation processing. It does not, nor is it intended to, reflect all directives on this subject.

Laws and Rulings	Effective Date	Components Affected	Impact on RRA Payments/Repayments /Reporting
Public Law 89-699	Payments Issued November 1, 1966 and Later	Supplemental Annuities	Supplemental annuity payments are subject to Federal income tax.
Public Law 98-21, the Social Security Amendments of 1983	Payments Issued January 1, 1984 and Later	Tier 1 and Overall Minimum Formula Benefits	Up to 50% of tier 1 and OM benefits are taxable in the same manner as social security benefit payments.
Public Law 98-76, the Railroad Retirement Solvency Act of 1983	Payments Issued January 1, 1984 and Later	Tier 2, Vested Dual Benefits, and Supplemental Annuities	<p>Tier 2 benefits are taxable as periodic <u>contributory</u> private pension payments. The employee's contribution to tier 2 is referred to as the tier 2 contribution (T2C) amount. The RRB performs T2C recovery processing under the Three Year Rule to determine taxable and nontaxable tier 2 benefits.</p> <p>Vested Dual Benefit payments and Supplemental Annuities are taxable as periodic <u>non-contributory</u> private pension payments.</p>
Public Law 99-272, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)	Payments Issued January 1, 1986 and Later	SSEB and NSSEB Tier 1	Only the amount of tier 1 that SSA would pay in benefits is taxable as a Social Security Equivalent Benefit (SSEB) amount. The amount of tier 1 greater than the SSEB is the Non-Social Security



			<p>Equivalent Benefit (NSSEB) amount, and is taxable as a <u>contributory</u> private pension.</p> <p>Since NSSEB and tier 2 benefits are paid from the same account, the employee contributes to NSSEB as well as tier 2 benefits. The T2C amount becomes the employee contribution or EEC amount. The RRB performs EEC recovery processing under the Three Year Rule to determine taxable and nontaxable NSSEB and tier 2 benefits.</p>
Public Law 99-514, the Tax Reform Act of 1986	Annuity Beginning Dates July 2, 1986 and Later	NSSEB Tier 1 and Tier 2	<p>Employee contribution recovery under the Three Year Rule is repealed. EEC recovery processing falls under the 1986 General Rule or the 1987 General Rule.</p> <p>The 1986 General Rule applies to ABDs July 2, 1986 through December 31, 1986. Nontaxable NSSEB and/or tier 2 amounts are calculated for the life of the annuity.</p> <p>The 1987 General Rule applies to ABDs January 1, 1987 and later. Nontaxable NSSEB and/or tier 2 amounts are calculated based on expected returns. Once the EEC has been recovered through</p>

			receipt of nontaxable NSSEB and/or tier 2 amounts, contributory amounts paid become fully taxable.
Director of Taxation Policy Decision	Late 1980's and Later	SSEB Tier 1 and OM formula Benefits, NSSEB Tier 1, Tier 2, VDB, and Supplemental Annuities	Unless a DF is granted in the year of an annuity formula conversion (RR to OM or OM to RR), corrected prior year tax statements should not be issued in response to a formula conversion that retroacts into prior tax years. Annuity conversion payments and repayments are reportable in the year of the conversion.
Director of Taxation Policy Decision	Tax years 1991 and Later	SSEB Tier 1 and OM formula Benefits, NSSEB Tier 1, Tier 2, VDB, and Supplemental Annuities	<p>Once the agency knows of an annuitant's death, tax statements for that year will not include payments issued after death, or the recovery of payments issued after death.</p> <p>If we learn of an annuitant's death in a year <u>after</u> it occurs, tax statements for the termination year will not include payments issued after death or the recovery of those amounts. They may include recovery of payments issued after death in any year before the termination year, as those amounts were reported to the IRS as taxable.</p>

<p>July 29, 1991 Legal Opinion 91-101, Reporting Employee Contribution and Recovery Amounts.</p>	<p>Tax Years 1992 and Later</p>	<p>NSSEB Tier 1 and Tier 2</p>	<p>When the Three Year Rule was repealed by the Tax Reform Act of 1986, we were no longer required to determine nontaxable and taxable contributory amounts paid.</p> <p>We are required to report (1) the EEC less any contributions recovered under the Three Year Rule, and (2) the total NSSEB and tier 2 amounts paid.</p> <p>Effective with tax year 1992, the RRB stopped performing EEC recovery, and stopped determining nontaxable contributory amounts paid.</p>
<p>June 19, 1991 Legal Opinion L-91-84, Tax Reporting of Retroactive Payments and Adjustments, and September 13, 1991 follow-up L-91- 84.1.</p> <p><b>This is a three member Board approved policy change covering the general area of tax reporting of</b></p>	<p>Tax years 1993 and Later</p>	<p>SSEB tier 1 and Overall Minimum Formula Benefits</p> <p>NSSEB tier 1</p>	<p>The RRB will no longer issue corrected tax statements because of a retroactive period of disability (DF).</p> <p>Beginning with DFs granted December 1, 1992 and later, changes to TAS and tax statements only affect the year of the DF onset decision date. Retroactive DFs may be the basis for release of Forms DF TXL-120 or TXL-120DF that re-characterize the composition of the tier 1 for prior years and may be used to amend</p>

retroactive adjustments.			Federal income tax returns.
July 1, 1993 General Counsel Memorandum, 1994 Changes to Our Tax Accounting Practices	Accrual Payments Vouchered January 1, 1994 and Later	Pre-1984 Tier 1, 1984 and 1985 pre-SSEB Tier 1, and SSEB Tier 1  NSSEB Tier 1  Pre-1984 and Post 1983 Tier 2  Pre-1984 and Post 1983 VDB  Supplemental Annuity	Simplified Accrual Tax Accounting applies a cash accounting basis to accrual processing. We account for net component payment and repayment amounts by taxable and nontaxable periods.  The RRB accomplishes this through a process called Merge and Cross Component Recovery processing, and by following a hierarchy of recovery of accrual overpayments by annuity component and tax year.
Public Law 103-66, the Omnibus Budget Reconciliation Act of 1993	Tax Years 1994 and Later	RRA payment amounts that were never reported to the IRS as taxable. These include payments that are not otherwise reportable, such as pre-1984 regular annuity amounts, SALSA payments, RLS, payments, etc.	\$600 or more of overpayment principal, interest, penalty, and administrative costs representing amounts that were never reported to the IRS as taxable must be reported as paid amounts in the year the RRB waives, compromises, or otherwise deems the debts <u>permanently uncollectible</u> .  Debts written off as uncollectible, but not permanently uncollectible, are not impacted.
Public Law 103-465, the	Payments Issued January	SSEB Tier 1 and Overall	The portion of potentially taxable SSEB benefits

Uruguay Round Agreements Act, also referred to as the General Agreement on Tariffs and Trade (GATT)	1, 1995 and Later	Minimum Formula Benefits	paid to nonresident aliens increases from 50% to 85%.
February 8, 1995 Memorandum From LAW	Payments Dated February 1, 1995 and Later	Tier 1	Tier 1 payments to convicted and incarcerated felons and the institutionalized criminally insane should be considered NSSEB payments as the Social Security Act does not allow payments to these individuals.  [Footnote: See Social Security Act Sections 202(x)(1) and 202(n) for current information about individuals to whom the SSA does not allow payments.]
July 2, 1995 Memorandum From LAW	Applicable to Any Payments From Which Income Taxes Were Withheld. For Documentation Purposes Only.	SSEB Tier 1 and Overall Minimum Formula Benefits, NSSEB Tier 1, Tier 2, VDB, and Supplemental Annuities	Taxes withheld from payments issued after an annuitant's date of death represent amounts owed the RRB.
Public Law 103-465, the Uruguay Round Agreements Act, also referred to as	Payments Issued January 1, 1997 and Later	SSEB Tier 1 and Overall Minimum Formula Benefits	Voluntary U.S. citizen SSEB tax withholding is allowed based on IRS set percentages.

the General Agreement on Tariffs and Trade (GATT)			
June 9, 1998 Legal Opinion L-98-14	Varying Dates, But No Later Than Payments Dated January 1, 2000	SSEB Tier 1 and Overall Minimum Formula Benefits  NSSEB Tier 1, Tier 2, VDB, and Supplemental Annuities	IRC Section 1441 withholding certificate requirement that an individual's United States taxpayer identifying number must be on a tax treaty exemption claim form for the exemption claim to be valid.  Tax treaty exemption claims provide for reduced tax withholding for nonresident aliens of the United States under income tax treaties in effect between the United States and certain countries of residence for tax purposes.
Public Law 107-16, the Economic Growth and Tax Relief Reconciliation Act of 2001	Payments Issued August 1, 2001 and Later	SSEB Tier 1 and Overall Minimum Formula Benefits  NSSEB Tier 1, Tier 2, VDB, and Supplemental Annuities	Voluntary U.S. citizen SSEB tax withholding percentages changed. The changes end December 31, 2010 under a Sunset Provision in the legislation.  U.S. citizen tax table rates were lowered from the rates in effect as of the first of the year.
February 22, 2002 Legal Opinion L-2002-02 not objecting to a	Tax Statements <u>Prepared</u>	Reportable payments, repayments, tax	Otherwise reportable payments and repayments associated with periods covered by annuity application

<p>proposed change in tax statement reporting of annuity cancellations</p> <p>March 22, 2002 Chief of Payment, Analysis, and Systems Policy Decision</p>	<p>January 1, 2002 and Later</p>	<p>withholding amounts, etc.</p>	<p>cancellations are to be reported for the year in which they occur.</p> <p>We no longer suppress reporting of current year payments and repayments and no longer issue zero value prior year tax statements for periods covered by cancelled annuity entitlements.</p>
<p>Public Law 108-27, the Jobs and Growth Tax Relief Reconciliation Act of 2003</p>	<p>Payments Issued August 1, 2003 and Later</p>	<p>SSEB Tier 1 and OM Formula Benefits</p> <p>NSSEB Tier 1, Tier 2, VDB, and Supplemental Annuities</p>	<p>Voluntary U.S. citizen SSEB tax withholding percentages changed. The changes end December 31, 2010 under a Sunset Provision in the legislation.</p> <p>U.S. citizen tax table rates were lowered from the rates in effect as of the first of the year.</p>
<p>Public Law 111-5, the American Recovery and Reinvestment Act of 2009</p>	<p>Payments Issued April 2009 and Later</p>	<p>NSSEB Tier 1, Tier 2, VDB, and Supplemental Annuities</p>	<p>U.S. citizen tax table rates were lowered from the rates in effect as of the first of the year.</p>
<p>Public Law 111-115, the No Social Security Benefits for Prisoners Act of 2009.</p> <p>September 7, 2010 Legal opinion L-2010-</p>	<p>Payments Issued December 15, 2009 and Later</p>	<p>SSEB and NSSEB Tier 1 payments and SSEB OM payments.</p>	<p>Section 204 of the Social Security Act (SSA) was amended disallowing payment of accrued SSA benefits to individuals while they are subject to nonpayment of recurring benefits under Section 202(x)(1).</p>

07, Payment and Taxation Impact of the legislation.			<p>The RRA has no payment restrictions. Accrued tier 1 and OM payments may be issued to these same individuals.</p> <p><u>Accruals due for what would be nonpayment periods at SSA</u> - Tier 1 should be paid as NSSEB and the OM should exclude the individual from the computation and be paid as SSEB.</p> <p><u>Accruals due for periods before what would be nonpayment periods at SSA</u> - Tier 1 should be paid as SSEB or NSSEB or SSEB/NSSEB splits <u>without regard</u> to the nonpayment period, and the OM should include the individual in the computation and be paid as SSEB.</p>
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### **TOM 20 Exhibit 2, History of Tax Statement Forms Used to Report Federally Taxable RRA Payments and Repayments**

<b>Tax Statement Type</b>	<b>Effective Tax Years</b>	<b>Individuals Taxed As</b>	<b>RRA Payments Affected</b>
IRS Forms G-1099	1966 Through 1983	U.S. Citizens and NRAs	Supplemental Annuity
Forms RRB-1099	1984 and 1985 1984	U.S. Citizens NRAs	Tier 1, OM formula



Forms RRB-W-2P	1984 and 1985	U.S. Citizens and NRAs	Tier 2, VDB, Supplemental Annuity
Forms RRB-1042S	1985	NRAs	Tier 1, OM formula
Forms RRB-1099	Tax Years 1986 and Later	U.S. Citizens	SSEB Tier 1, OM formula
Forms RRB-1042S	1986 and Later	NRAs	SSEB Tier 1, OM formula
Forms RRB-W-2P	1986 Through 1990	U.S. Citizens and NRAs	NSSEB Tier 1, Tier 2, VDB, Supplemental Annuity
Forms RRB-1099-R (12-92)	1990 and earlier	U.S. Citizens and NRAs	NSSEB, Tier 2, VDB, Supplemental Annuity
Forms RRB-1099-R	1991 and Later	U.S. Citizens and NRAs	NSSEB, Tier 2, VDB, Supplemental Annuity
Forms RRB-1099-R (12-92)	For Corrected Forms RRB-W-2P for Tax Years 1990 and Earlier	U.S. Citizens and NRAs	1984 through 1985: Tier 2, VDB, Supplemental Annuity  1986 through 1990: NSSEB, Tier 2, VDB, Supplemental Annuity
IRS Forms 1099-C	1994 and Later	U.S. Citizens and NRAs	Permanent cancellation of \$600.00 or more of debt that has never been

			reported to the IRS as taxable
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## TOM 20 Exhibit 3, Simplified Tax Accounting Effective Tax Year 1994 – Merge and Cross Component Recovery Processing

### 1. The Merge Occurs Only Within a Component.

The merge is the act of netting overpayments and underpayments within a component. In the examples below, negative amounts = overpayments and positive amounts = underpayments (PDs), unless they are designated as repayments (REPDs)

Component & Tax Years	Original Amounts	Amounts After the Merge
SSEB Yr 2	- \$ 500.00	\$ 0.00
SSEB Yr 1	+ \$ 500.00	\$ 0.00
<b>SSEB Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Component & Tax Years	Original Amounts	Amounts After the Merge
NSSEB Yr 1	- \$1,000.00	- \$ 500.00
NSSEB Cur Yr	+ \$ 500.00	\$ 0.00
<b>NSSEB Total</b>	<b>- \$ 500.00</b>	<b>- \$ 500.00</b>

#### a. **Pre-1984 Tier 2 and VDB Overpayments May Be Merged With Like Component Post 1983 Underpayments.**

Merging pre-1984 overpayments with post 1983 underpayments reduces reportable post 1983 underpayments. Reducing payments reported on tax statements is to the annuitant's advantage.

Tax Years	OP/UP Amounts	Annuitant Receives	Reportable to the IRS
Pre-1984	- \$ 500.00	\$ 0.00	\$ 0.00

Post 1983	+ \$1,000.00	+ \$ 500.00	<b>+ \$ 500.00 PD</b>
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**b. Pre-1984 Tier 2 and VDB Underpayments MAY NOT Be Merged With Like Component Post 1983 Overpayments.**

Not allowing pre-1984 underpayments to be merged with post 1983 overpayments keeps reportable post 1983 repayments at a maximum. Increasing repayments reported on tax statements is to the annuitant's advantage.

Tax Years	OP/UP Amounts	Annuitant Received	Reportable to the IRS
Pre-1984	+ \$1,000.00	+ \$ 500.00	\$ 0.00
Post 1983	- \$ 500.00	\$ 0.00	<b>+ \$ 500.00 REPD</b>

**2. Cross Component Recovery Occurs Only Across or Between Components.**

Cross component recovery is the act of recovering one or more component overpayment(s) from one or more component underpayment(s). It is performed after any merge within components.

Component & Tax Years	Original Amounts	Amounts After the Merge	Amounts After CC Recovery
SSEB Yr 2	- \$ 1,500.00	- \$ 700.00	- \$ 300.00 <b>+ \$ 400.00 REPD</b>
SSEB Yr 1	+ \$ 800.00	\$ 0.00	\$ 0.00
SSEB Total	- \$ 700.00	- \$ 700.00	- \$ 300.00
NSSEB Yr 2	- \$ 100.00	\$ 0.00	\$ 0.00
NSSEB Yr 1	+ \$ 500.00	+ \$ 400.00 PD	<b>+ \$ 400.00 PD</b>
NSSEB Total	+ \$ 400.00	+ \$ 400.00	+ \$ 400.00 PD

<b>Component &amp; Tax Years</b>	<b>Original Amounts</b>	<b>Amounts After the Merge</b>	<b>Amounts After CC Recovery</b>
SSEB Yr 2	- \$ 1500.00	- \$ 700.00	- \$ 200.00 <b>+ \$ 500.00 REPD</b>
SSEB Yr 1	+ \$ 800.00	\$ 0.00	\$ 0.00
SSEB Total	- \$ 700.00	- \$ 700.00	- \$ 200.00
T2 Post 1983	+ \$ 500.00	+ \$ 500.00 PD	<b>+ \$ 500.00 PD</b>
T2 Total	+ \$ 500.00	+ \$ 500.00	+ \$ 500.00

**3. Accrual accounting captures underpayments and overpayments. We create repayments from a combination of underpayments and overpayments.**

- a. If one component's underpayments are greater than or equal to another component's overpayments, repayments are equal to the overpayments. (If PDs are  $\geq$  OPs, then REPDs = OPs)**

Tier 1 overpayment = \$1,000.00

Tier 2 underpayment = \$2,000.00

The \$2,000.00 underpayment is  $>$  the \$1,000.00 overpayment, so repayments = \$1,000.00. The following is reportable:

Tier 1 repayment = \$1,000.00

Tier 2 payment = \$2,000.00

- b. If one component's underpayments are less than another component's overpayments, then the overpaid component's repayments are equal to the underpayment. (If PDs are  $<$  OPs, then REPDs = PDs)**

Tier 1 overpayment = 2,000.00

Tier 2 underpayment = \$1,000.00

The \$1,000.00 underpayment is  $<$  the \$2,000.00 overpayment, so the repayment is = to \$1,000.00. The following is reportable:

Tier 1 repayment = \$1,000.00

Tier 2 payment = \$1,000.00

## **TOM 20 Exhibit 4, The Order of Annuity Deductions and How It Affects Taxable Component Payment Amounts**

See TOM 20.40, Annuity Deductions, for an explanation of various annuity deductions, the order of deductions, and component specific and non-component specific deductions. The item C example contains maximum component payment amounts and maximum deduction amounts. The complexity is beyond a normal record situation, but is provided to demonstrate the functionality of the order of annuity deductions processing.

### **A. Multiple Deductions and the Order in Which They Should be Applied to Annuity Components**

The order of annuity deductions for taxation purposes is as follows:

	<b>RRA Annuity Deductions</b>
1	Work Deduction Amounts
2	Waiver Amounts
3	Partition Deduction Amounts
4	Garnishment Deduction Amounts
5	Actuarial Adjustment Amounts
6	Partial Withholding Repayment Amounts
7	Tax Withholding Amounts
8	RR SMIB Deduction Amounts

### **B. Component Specific Deductions and Non-Component Specific Deductions.**

<b>Component Specific</b>	<b>Non-Component Specific</b>
Work Deductions	Garnishments
Partitions	Actuarial Adjustments
Some Waivers	Some Waivers
Repayments	Tax Withholding
	SMIB Premiums

### **C. Example of Allocating Multiple Annuity Deductions to Components.**

<b>Gross Paid: Reg Ann = \$2,200.00 / Supp Ann = \$43.00</b>
\$1,000.00 SSEB
\$ 400.00 NSSEB

\$ 600.00 Tier 2
\$ 200.00 VDB
\$ 43.00 Supp Ann

<b>Deductions: Reg Ann = \$1,255.00 / Supp Ann = \$ 41.50</b>
\$ 500.00 Tier 1 Work Deduction
\$ 300.00 Tier 2 Work Deduction
\$ 50.00 VDB Work Deduction
\$ 21.50 Supp Work Deduction
\$ 50.00 Unspecified Waiver
\$ 150.00 Tier 2 Partition Deduction
\$ 20.00 Supp Partition Deduction
\$ 25.00 Actuarial Adjustment
\$ 150.00 Specified Partial Withholding
\$ 100.00 x .82550 (established NSSEB %), rounded = NSSEB Repaid
\$ 100.00 - NSSEB Repaid = Tier 2 Repaid
\$ 80.00 SMIB Deduction

Below is an allocation of the components paid and deduction amounts as described above. Deductions are allocated in the designated order and the new component paid amounts are shown after each deduction.

AA = Actuarial Adjustment

Pd = Paid

Prtn = Partition

Rpd = Repaid

Smi = SMIB

Wd = Work Deduction

Wvr = Waiver

SSEB	NSSEB	Tier 2	VDB	Supp
<b>\$1,000.00 Pd</b>	<b>\$ 400.00 Pd</b>	<b>\$ 600.00 Pd</b>	<b>\$ 200.00 Pd</b>	<b>\$ 43.00 Pd</b>
- \$ 500.00 Wd		- \$ 300.00 Wd	- \$ 50.00 Wd	- \$ 21.50 Wd
\$ 500.00 Pd	\$ 400.00 Pd	\$ 300.00 Pd	\$ 150.00 Pd	\$ 21.50 Pd
- \$ 18.52 Wvr	- \$ 14.82 Wvr	- \$ 11.11 Wvr	- \$ 5.55 Wvr	
\$ 481.18 Pd	\$ 385.18 Pd	\$ 288.89 Pd	\$ 144.45 Pd	\$ 21.50 Pd
		- \$ 150.00 Prtn		- \$ 20.00 Prtn

\$ 481.18 Pd	\$ 385.18 Pd	\$ 138.89 Pd	\$ 144.45 Pd	\$ 1.50 Pd
- \$ 10.47 AA	- \$ 8.37 AA	- \$ 3.02 AA	- \$ 3.14 AA	
\$ 471.01 Pd	\$ 376.81 Pd	\$ 135.87 Pd	\$141.31 Pd	\$ 1.50 Pd
	- 82.55 Rpd	- \$ 17.45 Rpd		
\$ 471.01 Pd	\$ 294.26 Pd	\$ 118.42 Pd	\$141.31 Pd	\$ 1.50 Pd
- \$ 80.00 Smi				
<b>\$ 391.01 Pd</b>	<b>\$ 294.26 Pd</b>	<b>\$ 118.42 Pd</b>	<b>\$141.31 Pd</b>	<b>\$ 1.50 Pd</b>

<b>Net Regular Annuity</b>	<b>Net Supp Ann</b>
\$ 945.00	\$ 1.50

### **Prorations**

#### **Unspecified Waiver = \$50.00**

\$ 500.00 SSEB  
 \$ 400.00 NSSEB  
 \$ 300.00 Tier 2  
\$ 150.00 VDB  
 \$1,350.00

500.00/1,350.00 = .37037 x \$50.00 = \$ 18.52 SSEB Wvr  
 400.00/1,350.00 = .29630 x \$50.00 = \$ 14.82 NSSEB Wvr  
 300.00/1,350.00 = .22222 x \$50.00 = \$ 11.11 Tier 2 Wvr  
 \$ 44.45  
 \$50.00 - \$44.45 = \$ 5.55 VDB Wvr  
**\$ 50.00 Total Unspecified Waiver**

#### **Actuarial Adjustment = \$25.00**

\$ 481.48 SSEB  
 \$ 385.18 NSSEB  
 \$ 138.89 Tier 2  
\$ 144.45 VDB  
 \$1,150.00

481.48/1,150.00 = .41868 x \$25.00 = \$ 10.47 SSEB AA  
 385.18/1,150.00 = .33494 x \$25.00 = \$ 8.37 NSSEB AA  
 138.89/1,150.00 = .12077 x \$25.00 = \$ 3.02 Tier 2 AA  
 \$ 21.86  
 \$25.00 - \$21.86 = \$ 3.14 VDB AA  
**\$ 25.00 Total Actuarial Adjustment**

#### **Partial Withholding = \$100.00**

Established OP percentage: NSSEB = .82550  
 Tier 2 = remainder

.82550 x \$100.00 = \$ 82.55 NSSEB Rpd  
 \$100.00 - 82.55 = \$ 17.45 Tier 2 Rpd

**\$100.00 Total Partial Withholding****TOM 20 Exhibit 5, Posting TAS Recoveries of Payments Gross and Net of Tax Withholding and Gross and Net of SMIB****A. Recovery in the Year of Payment Issue****1. Reason for Recovery is NOT Death**

Recovered Payment Type	Component Type	Recovery Should Be	Gross/Net of TWH	Gross/Net of SMIB
Monthly	SSEB	+ Repaid	Gross	Net
Monthly	NSSEB, T2, VDB, Supp Ann	+ Repaid	Gross	Net
Accrual	SSEB	+ Repaid	Gross	Net
Accrual	NSSEB, T2, VDB, Supp Ann	- Paid	Gross	Net

**2. Reason for Recovery IS Death****a. Original Payment Date is EARLIER THAN OR EQUAL TO the Month of Death**

Recovered Payment Type	Component Type	Recovery Should Be	Gross/Net of TWH	Gross/Net of SMIB
Monthly	SSEB	+ Repaid	Gross	Net
Monthly	NSSEB, T2, VDB, Supp Ann	+ Repaid	Gross	Net
Accrual	SSEB	+ Repaid	Gross	Net
Accrual	NSSEB, T2, VDB, Supp Ann	- Paid	Gross	Net

**b. Original Payment Date is LATER THAN the Month of Death**



Recovered Payment Type	Component Type	Recovery Handled As	Gross/Net of TWH	Gross/Net of SMIB
Monthly	SSEB	- Paid	Gross	Gross
Monthly	NSSEB, T2, VDB, Supp Ann	- Paid	Gross	Gross
Accrual	SSEB	- Paid	Gross	Gross
Accrual	NSSEB, T2, VDB, Supp Ann	- Paid	Gross	Gross

**A. Recovery in A Year After the Year of Payment Issue**

**1. Reason for Recovery is NOT Death**

Recovered Payment Type	Component Type	Recovery Handled As	Gross/Net of TWH	Gross/Net of SMIB
Monthly	SSEB	+ Repaid	Net	Net
Monthly	NSSEB, T2, VDB, Supp Ann	+ Repaid	Net	Net
Accrual	SSEB	+ Repaid	Net	Net
Accrual	NSSEB, T2, VDB, Supp Ann	+ Repaid	Net	Net

**a. Original Payment Date is EARLIER THAN OR EQUAL TO the Month of Death**

Recovered Payment Type	Component Type	Recovery Handled As	Gross/Net of TWH	Gross/Net of SMIB
Monthly	SSEB	+ Repaid	Net	Net
Monthly	NSSEB, T2, VDB, Supp Ann	+ Repaid	Net	Net

Accrual	SSEB	+ Repaid	Net	Net
Accrual	NSSEB, T2, VDB, Supp Ann	+ Repaid	Net	Net

**b. Original Payment Date is LATER THAN the Month of Death**

<b>Recovered Payment Type</b>	<b>Component Type</b>	<b>Recovery Handled As</b>	<b>Gross/Net of TWH</b>	<b>Gross/Net of SMIB</b>
Monthly	SSEB	- Paid	Net	Gross
Monthly	NSSEB, T2, VDB, Supp Ann	- Paid	Net	Gross
Accrual	SSEB	- Paid	Net	Gross
Accrual	NSSEB, T2, VDB, Supp Ann	- Paid	Net	Gross

This chapter explains the computations involved in the taxation of railroad retirement annuities. The following computations are explained:

- taxable amount of the railroad retirement annuity,
- taxable amount of the supplemental annuity,
- the employee contribution amount,
- taxability under the Three-Year Rule,
- taxability under the General Rule/Simplified General Rule, and
- how payments and repayments affect the taxability of an annuity.

## **105 How a Railroad Retirement Annuity Is Taxed**

### **105.05**

Regular railroad retirement annuities consisting of tier 1, tier 2, and vested dual benefit components have been subject to United States Federal income tax since 1984. Supplemental annuities have been subject to Federal income tax since 1966. The residual lump sum (RLS) and lump sum death payment (LSDP) are not taxable.

The amount of tier 1 which would be payable if railroad employment had actually been covered under the Social Security Act, known as the social security equivalent benefit (SSEB), is treated as a social security benefit for Federal income tax purposes.

In addition, overall minimum (O/M) benefits are treated the same as social security benefits for Federal income tax purposes.

The portion of the tier 1 amount that exceeds social security equivalent benefits, known as the non-social security equivalent benefit (NSSEB), plus the tier 2 component are treated like contributory private and public service pensions for Federal income tax purposes. Either the Three-Year Rule or the General Rule is used to figure the taxability of these benefits. This is explained in section 115.

The vested dual benefit and supplemental annuity are treated like non-contributory private and public service pensions for Federal income tax purposes. The entire amount of the vested dual benefit and the entire amount of the supplemental annuity are included as taxable earnings.

## 110 How Tier 1 is Taxed

### 110.05

Certain parts of a railroad retirement annuity are taxed in the same manner as social security benefits - the entire tier 1 portion payable for December 1983 through November 1985; the social security equivalent benefit portion of tier 1 (SSEB) payable for December 1985 and later; and the overall minimum (O/M) payable for December 1983 and later.

#### **110.05.05 Tier 1/SSEB Portion of Tier 1**

The tier 1/SSEB portion of tier 1 of a railroad retirement annuity is equivalent to what the annuitant would have received if the employee's railroad service had been covered under the social security system rather than the railroad retirement system. Therefore, tier 1/SSEB payments are taxed like social security benefits.

Payments of tier 1 benefits due for the period December 1983 through November 1985 are taxable in the year in which paid, with an option available under certain conditions that these payments may be allocated by the annuitant to the year for which paid. SSEB payments due for the period December 1985 and later are taxable either in the year in which paid or in the year for which paid. Payments for months before December 1983 are not taxable, even if paid in 1984 or later.

#### **110.05.10 Overall Minimum (O/M)**

The overall minimum (O/M) guaranty is defined by the Internal Revenue Code Section 86(d) as being equivalent to what would be paid in social security benefits were the employee's railroad service covered under the social security system rather than the railroad retirement system. Therefore, payments made under the O/M for December 1983 and later, are taxed as social security benefits. Payments for months before December 1983 are not taxable, even if paid in 1984 or later.

### 110.10 Determining SSEB Amount

The SSEB provision of the "Consolidated Omnibus Budget Reconciliation Act of 1985" modified the tax law retroactive to January 1, 1986, as applied to some tier 1 benefits paid by the Railroad Retirement Board. The actual amount of the tier 1 benefit component has not changed; only the manner by which tier 1 is taxed has changed. For tax purposes, an SSEB amount will be computed for every annuitant whose tier 1 would not equal the benefit the annuitant would be entitled to receive if the Social Security Administration administered payment under its rules. The remainder of the tier 1 computed is the non-social security equivalent benefit (NSSEB) (see TOM 115.05).

### **110.10.05 SSEB Calculation Modular Program (SCAMP-ON-DEMAND)**

The SSEB/NSSEB amounts are calculated by the SSEB Calculation Modular Program (SCAMP). This program is used for all SSEB calculations, whether automated or manual input is required (SCAMP-ON-DEMAND). Therefore, if the input is the same (DOB, type of annuity, ABD) the SSEB calculation will be the same. There is no actual manual calculation available. The basis for the SSEB calculations in SCAMP is the Social Security Administration (SSA) on-line program, used to calculate SS benefit amounts with slight changes made for RR Act provisions, systems, and records limitations.

SCAMP can be called automatically by various TAX programs to calculate SSEB/NSSEB amounts. SCAMP can also be called manually through the input of data from Form G-816, WORKSHEET FOR SCAMP ON DEMAND. TAX examiners complete this form when the correct tier 1 SSEB/NSSEB split is unknown. Entries on the worksheet are keyed by the examiner onto the SCAMP-ON-DEMAND screens. Both the input and output information appears on the screen and may be printed.

The SSEB/NSSEB amounts are calculated and are accurate only if the SCAMP input data from the database or examiner entry is accurate. The data that is used for the SSEB split calculation includes the following fields, as applicable. For the calculation to be correct, the data in these fields must be accurate:

RR Claim Number	Payee Code
Prefix	Beneficiary Symbol
Beneficiary DOB	Beneficiary ABD
Employee DOB	Employee ABD
Annuity Formula	DF Onset Date
DF Termination Date	Employee Type of Annuity
Beneficiary Type of Annuity	Employee Type of Computation
Ben. Type of Computation	Net Tier 1
SSEB PIA	SSEB PIA Indicator
DRC Months	SS Reduction Amount
Workers' Comp. Red. Amount	O/M Rate

Public Dis. Ben. Red. Amount	RIB Limit/82 1/2% Amount
Own Emp. Ann. Red. Amount	Public Service Pension Amount
Stat. Share/Red. for Max. Amt	Sole Survivor Min. Guar. Amount

See Exhibit 1 for a display of Form G-816 and see Exhibit 2 for a display of the SCAMP-ON-DEMAND input/output screen.

### **110.10.10 SSEB By Definition/Categories of Cases**

In certain cases, the annuitant is receiving the same amount in tier 1 benefits as he would receive at SSA. These cases have no deeming provisions applied to the tier 1 calculation and, therefore, their entire tier 1 is considered an SSEB. SCAMP does not calculate SSEBs in these cases, but makes them all SSEB by definition. These categories are:

#### **EMPLOYEE**

- EE with full age 65 annuity.
- Reduced age EE paid under 1981 Amendments.
- 60/30 EE paid under 1983 Amendments who are over age 62 and have a full age reduction (eligible 1-1-86 or later).
- EE with a period of disability (other than Medicare-only).

#### **SPOUSE**

- Spouse of full age 65 or reduced age 62 EE unless spouse is receiving an annuity under the 1937 or 1974 Act.
- Spouse of 60/30 EE paid under the 1983 Amendments; EE and spouse are over age 62 and have a full age reduction (eligible 1-1-86 or later).
- Spouse with minor child under age 16, or disabled child in care if EE has a period of disability or is over 62.
- Divorced spouse annuitant (unless EE is 60/30 annuitant under 1974 Act).

#### **WIDOW(ER)**

- Widow(er) with an OBD before 2-68 who was over age 65 on his/her OBD.
- Widow(er) with an OBD of 2-68 or later and were over age 62 on his/her OBD.

- Disabled, divorced disabled, or remarried disabled widow(er) with a social security disability rating
- Remarried widow(er).
- Mothers and fathers (includes divorced and remarried).

#### OTHER SURVIVORS

- Parents over 62
- Minor child under age 16, or disabled child or grandchild.
- Students.

#### **110.10.15 When Tier 1 is an All Non-Social Security Equivalent Benefit (NSSEB) Amount**

##### **Tier 1 is All NSSEB By Definition**

Certain tier 1 amounts are not Social Security Equivalent Benefit (SSEB) payments because the Social Security Administration (SSA) would not pay them. The SSEB Calculation Modular Program (SCAMP) does not perform calculations for these tier 1 payments, but makes them SSEB = 0 by definition.

##### **Tier 1 is All NSSEB By Calculation**

Certain tier 1 amounts are not SSEB payments because the tier 1 amounts exceed what SSA would pay. This occurs when tier 1 offset amounts exceed what would be the SSEB portion of the tier 1 payment.

In these instances, any tier 1 payments are all NSSEB amounts. Below are lists of all NSSEB tier 1 amounts by annuitant type.

##### **Note:**

See TOM 110.10.15.05 for rules regarding:

- payment of tier 1 and overall minimum (OM) formula accruals due for payment periods **during which** nonpayment under Section 202(x)1 of the Social Security Act applies, and
- payment of tier 1 and OM formula accruals due for payment periods **prior to** periods during which nonpayment under Section 202(x)1 of the Social Security Act applies, but the individual is currently subject to those nonpayment provisions.

#### **A. EMPLOYEE**

1. A 60/30 age and service employee under age 62.
2. A disabled employee under age 62 with no period of disability (disability freeze).
3. An employee who does not have a SSA insured status, and, therefore, does not have a SSEB insured status.
4. An employee who is subject to nonpayment under Section 202(n) of the Social Security Act on his or her own wage record or as an auxiliary beneficiary on another individual's wage record. Section 202(n) covers both wage earners who have been removed (deported) from the United States and any auxiliary beneficiaries entitled on the wage record of a wage earner who has been removed (deported) from the United States. **If a wage earner is not payable under Section 202(n), auxiliary beneficiaries are also not payable.**

**Note 1:** Because auxiliary beneficiaries are not payable when the wage earner is not payable:

- Auxiliary beneficiaries' tier 1 amounts should be paid as NSSEB.
  - The employee and any auxiliary beneficiaries entitled on the employee's wage record must be excluded from the overall minimum (OM) formula calculation.
5. An employee who is subject to nonpayment under Section 202(x)(1) of the Social Security Act. Section 202(x)(1) covers four general categories of wage earners who are certain convicted prisoners, inmates of publically funded institutions, fugitives, probationers, and parolees. It does not cover auxiliary beneficiaries entitled on the wage records of these wage earners. **If a wage earner is not payable under Section 202(x)(1), auxiliary beneficiaries are payable without regard to the wage earner's nonpayment status.**

**Note 2:** Because auxiliary beneficiaries are payable without regard to the wage earner's nonpayment status:

- Auxiliary beneficiaries' tier 1 amounts should be paid as NSSEB, SSEB, or a SSEB/NSSEB split, whatever is appropriate.
- If the overall minimum (OM) formula applies with the employee excluded from the calculation, pay the OM as SSEB.

See FOM 1.150.5, Prisoner Conviction Cases - General, for definitions of what constitutes a criminal offense, a conviction, incarceration, and other issues related to this subject. Wage earners subject to nonpayment under



Section 202(x)(1) of the Social Security Act are listed in items a. through d. below.

- a. An employee who is incarcerated following conviction of a criminal offense.
- b. An employee who is confined by court order in an institution at public expense because he or she is:
  - 1) Found guilty of a criminal offense, but insane.
  - 2) Found not guilty of a criminal offense by reason of insanity.
  - 3) Incompetent to stand trial for a criminal offense.
  - 4) Suffers from a mental disease, defect, of incompetence that prevents him or her from standing trial for a criminal offense.
  - 5) A sexually dangerous person or predator who is not released from prison upon completion of his or her sentence for a criminal offense.
- c. An employee who is fleeing to avoid prosecution, or is fleeing to avoid confinement after prosecution for a criminal offense.
- d. An employee who is violating a condition of probation or parole imposed under Federal or State law.

**Note 3:** See TOM 110.10.15.05 for rules regarding the tax accounting of tier 1 and overall minimum (OM) formula **accrual payments** when nonpayment under section 202(x)(1) of the Social Security Act applies to the wage earner.

6. An employee whose tier 1 calculates to all NSSEB because of tier 1 offset amounts.

## **B. SPOUSE**

1. A spouse of an age and service 60/30 employee under age 62.
2. A spouse of a disabled employee under age 62 with no period of disability (disability freeze).
3. A spouse under age 62 who does not have a minor child under age 16, or disabled child in his or her care, regardless of the employee's age.

4. A spouse with a minor child under age 18 in his or her care. The child must be at least age 16, but less than age 18, and not disabled. This is often referred to as a Nancy Johnson spouse.
5. A spouse of an employee who does not have a SSA insured status, and, therefore, does not have a SSEB insured status.
6. A spouse who is subject to nonpayment under Section 202(n) of the Social Security Act on his or her own wage record or as an auxiliary beneficiary on another individual's wage record. Section 202(n) covers both wage earners who have been removed (deported) from the United States and any auxiliary beneficiaries entitled on the wage record of a wage earner who has been removed (deported) from the United States. **If a wage earner is not payable under Section 202(n), auxiliary beneficiaries are also not payable.**

**Note 1:** If the overall minimum (OM) formula applies with the spouse excluded from the calculation, pay the OM as SSEB.

7. A spouse who is subject to nonpayment under Section 202(x)(1) of the Social Security Act. Section 202(x)(1) covers the general categories of wage earners who are certain convicted prisoners, inmates of publically funded institutions, fugitives, probationers, and parolees. See the eight specific categories of wage earners shown below. It does not cover auxiliary beneficiaries entitled on the wage records of these wage earners. **If a wage earner is not payable under Section 202(x)(1), auxiliary beneficiaries are payable without regard to the wage earner's nonpayment status.**

**Note 2:** If the overall minimum (OM) formula applies with the spouse excluded from the calculation, pay the OM as SSEB.

See FOM 1.150.5, Prisoner Conviction Cases – General, for definitions of what constitutes a criminal offense, a conviction, incarceration, and other issues related to this subject. Wage earners subject to nonpayment under Section 202(x)(1) of the Social Security Act are listed in items a. through d. below.

- a. A spouse who is incarcerated following conviction of a criminal offense.
- b. A spouse who is confined by court order in an institution at public expense because he or she is:
  - 1) Found guilty of a criminal offense, but insane.
  - 2) Found not guilty of a criminal offense by reason of insanity.
  - 3) Incompetent to stand trial for a criminal offense.

- 4) Suffers from a mental disease, defect, of incompetence that prevents him or her from standing trial for a criminal offense.
  - 5) A sexually dangerous person or predator who is not released from prison upon completion of his or her sentence for a criminal offense.
- c. A spouse who is fleeing to avoid prosecution, or is fleeing to avoid confinement after prosecution for a criminal offense.
  - d. A spouse who is violating a condition of probation or parole imposed under Federal or State law.

See TOM 110.10.15.05 for rules regarding the tax accounting of tier 1 and overall minimum (OM) formula **accrual payments** when nonpayment under section 202(x)(1) of the Social Security Act applies to the wage earner.

8. A spouse whose tier 1 calculates to all NSSEB because of tier 1 offset amounts.

### C. **WIDOW(ER)**

1. A disabled widow(er) under age 60 with no social security disability rating.
2. A widow(er) with a minor child under age 18 in his or her care. The child must be at least age 16, but less than age 18, and not disabled. This is often referred to as a Nancy Johnson widow(er).
3. A widow(er) of an employee who does not have a SSA insured status, and, therefore, does not have a SSEB insured status.
4. A widow(er) who is subject to nonpayment under Section 202(n) of the Social Security Act on his or her own wage record or as an auxiliary beneficiary on another individual's wage record. Section 202(n) covers both wage earners who have been removed (deported) from the United States and any auxiliary beneficiaries entitled on the wage record of a wage earner who has been removed (deported) from the United States. **If a wage earner is not payable under Section 202(n), auxiliary beneficiaries are also not payable.**
5. A widow(er) who is subject to nonpayment under Section 202(x)(1) of the Social Security Act. Section 202(x)(1) covers four general categories of wage earners who are certain convicted prisoners, inmates of publically funded institutions, fugitives, probationers, and parolees. It does not cover auxiliary beneficiaries entitled on the wage records of these wage earners. **If a wage earner is not payable under Section 202(x)(1), auxiliary**

**beneficiaries are payable without regard to the wage earner's nonpayment status.**

See FOM 1.150.5, Prisoner Conviction Cases – General, for definitions of what constitutes a criminal offense, a conviction, incarceration, and other issues related to this subject. Wage earners subject to nonpayment under Section 202(x)(1) of the Social Security Act are listed in items a. through d. below.

- a. A widow(er) who is incarcerated following conviction of a criminal offense.
- b. A widow(er) who is confined by court order in an institution at public expense because he or she is:
  - 1) Found guilty of a criminal offense, but insane.
  - 2) Found not guilty of a criminal offense by reason of insanity.
  - 3) Incompetent to stand trial for a criminal offense.
  - 4) Suffers from a mental disease, defect, of incompetence that prevents him or her from standing trial for a criminal offense.
  - 5) A sexually dangerous person or predator who is not released from prison upon completion of his or her sentence for a criminal offense.
- c. A widow(er) who is fleeing to avoid prosecution, or is fleeing to avoid confinement after prosecution for a criminal offense.
- d. A widow(er) who is violating a condition of probation or parole imposed under Federal or State law.

**Note:** See TOM 110.10.15.05 for rules regarding the tax accounting of tier 1 accrual payments when nonpayment under section 202(x)(1) of the Social Security Act applies to the wage earner.

6. A widow(er) whose tier 1 calculates to all NSSEB because of tier 1 offset amounts.

**D. OTHER SURVIVORS**

1. Parents under age 62.
2. A survivor of an employee who does not have a SSA insured status, and, therefore, does not have a SSEB insured status.

3. A survivor who is subject to nonpayment under Section 202(n) of the Social Security Act on his or her own wage record or as an auxiliary beneficiary on another individual's wage record. Section 202(n) covers both wage earners who have been removed (deported) from the United States and any auxiliary beneficiaries entitled on the wage record of a wage earner who has been removed (deported) from the United States. **If a wage earner is not payable under Section 202(n), auxiliary beneficiaries are also not payable.**
  
4. A survivor who is subject to nonpayment under Section 202(x)(1) of the Social Security Act. Section 202(x)(1) covers four general categories of wage earners who are certain convicted prisoners, inmates of publically funded institutions, fugitives, probationers, and parolees. It does not cover auxiliary beneficiaries entitled on the wage records of these wage earners. **If a wage earner is not payable under Section 202(x)(1), auxiliary beneficiaries are payable without regard to the wage earner's nonpayment status.**

See FOM 1.150.5, Prisoner Conviction Cases - General, for definitions of what constitutes a criminal offense, a conviction, incarceration, and other issues related to this subject. Wage earners subject to nonpayment under Section 202(x)(1) of the Social Security Act are listed in items a. through d. below.

- a. A survivor who is incarcerated following conviction of a criminal offense.
  
- b. A survivor who is confined by court order in an institution at public expense because he or she is:
  - 1) Found guilty of a criminal offense, but insane.
  - 2) Found not guilty of a criminal offense by reason of insanity.
  - 3) Incompetent to stand trial for a criminal offense.
  - 4) Suffers from a mental disease, defect, of incompetence that prevents him or her from standing trial for a criminal offense.
  - 5) A sexually dangerous person or predator who is not released from prison upon completion of his or her sentence for a criminal offense.
  
- c. A survivor who is fleeing to avoid prosecution, or is fleeing to avoid confinement after prosecution for a criminal offense.
  
- d. A survivor who is violating a condition of probation or parole imposed under Federal or State law.

**Note:** See TOM 110.10.15.05 for rules regarding the tax accounting of tier 1 **accrual payments** when nonpayment under section 202(x)(1) of the Social Security Act applies to the wage earner.

5. A survivor whose tier 1 calculates to all NSSEB because of tier 1 offset amounts.

### **110.10.15.05 Special Tax Accounting Rules For Tier 1 and Overall Minimum Formula Accrual Payments Due Individuals Subject to Nonpayment Under Section 202(x)(1) of the Social Security Act**

#### **1. Tier 1 Accrual Due For a Payment Period Within the Nonpayment Period**

Any tier 1 accrual due for a period **within** the nonpayment period is payable as **NSSEB**.

#### **2. Overall Minimum Formula Accrual Due For a Payment Period Within the Nonpayment Period**

Any overall minimum (OM) formula accrual due for a payment period **within** the nonpayment period may be payable if the OM still applies with the individual subject to nonpayment **excluded from the OM calculation**. If the OM still applies, the OM accrual is payable as **SSEB**.

#### **3. Tier 1 Accrual Due For a Payment Period Prior to the Nonpayment Period**

Any tier 1 accrual due for a period **prior to** the nonpayment period **should be paid without regard to the individual's nonpayment status**. That means the tier 1 accrual is payable as **NSSEB, SSEB, or a SSEB/NSSEB split, whichever is applicable**.

#### **4. Overall Minimum Formula Accrual Due For a Payment Period Prior to the Nonpayment Period**

Any overall minimum (OM) formula accrual due for a period prior to the nonpayment period **should be paid without regard to the individual's nonpayment status**. That means the individual subject to nonpayment should be **included in the OM calculation**. The OM accrual is payable as **SSEB**.

### **110.10.20 SSEB/NSSEB Split/Categories of Cases**

An SSEB is calculated for those annuitants whose tier 1 is not defined to be equal to the SSEB because the railroad retirement annuity has certain deeming provisions (deemed period of disability, deemed age 65) applied to the calculation of the tier 1 benefit. Types of cases with a calculated SSEB are:

EMPLOYEE

- Reduced age EE paid under the 1937 or 1974 Act.
- 60/30 EE over age 62 paid under the 1974 Act or 1983 Amendments without a full age reduction (eligible before 1-1-86).
- Disabled EE over age 62 with no period of disability.

SPOUSE

- Spouse of reduced age EE paid under the 1937 or 1974 Act.
- Spouse of 60/30 EE over age 62 paid under the 1974 Act or 1983 Amendments without a full age reduction (eligible before 1-1-86).
- Spouse of disabled EE over age 62 with no period of disability.
- Divorced spouse of 60/30 EE who retired under the 1974 Act.
- Reduced age spouse paid under the 1937 or 1974 Act and EE disabled with a period of disability.
- Spouse of full age EE.

WIDOW(ER)

- Disabled widow(er) paid under the 1937 Act.
- Widow(er) with OBD before 2-68 who was under age 65 on OBD.

**110.10.25 Default to All SSEB or All NSSEB**

When SCAMP must compute an SSEB because the annuitant falls into one of the categories under 110.10.20, but all the information it needs to compute the SSEB is not available, the SCAMP computation defaults to SSEB = Net Tier 1, or all SSEB. If the unavailable information is not a missing or invalid date of birth, and the date of birth indicates the annuitant is under age 62, the SCAMP computation defaults to all NSSEB.

When the missing information is available on the tax accounting system (TAS), SCAMP will pick up the information and recalculate the SSEB. This recalculation can occur on a mass adjustment, daily award activity, or on the monthly TAS recertification run.

When SCAMP processing produces a default to SSEB or a default to NSSEB, it also produces default codes each with a referral message. Up to five codes can be displayed on the SCAMP-ON-DEMAND output screen as DEFAULT REF-

MSG 1, DEFAULT REF-MSG 2, DEFAULT REF-MSG 3, DEFAULT REF-MSG 4, and DEFAULT REF-MSG 5. See Exhibit 3 for a list of the default codes and their messages.

### **110.15 SSEB Attainments**

Annuitants who originally do not have an SSEB because they would not be entitled to an SS benefit if the employee's railroad service were covered under the social security system can subsequently become entitled to an SSEB when they attain their SSEB date of entitlement. The SSEB date of entitlement can be based on their attaining the age for SS benefit eligibility or being granted a disability rating under SS Act rules (period of disability in employee cases).

SSEB attainment processing is handled by the Tax Withholding Recertification Program (TAS RECERT), which is run once a month. This processing recomputes the annuitant's SSEB amount using SCAMP, recalculates tax withholding, and generates an RL-120 tax notice. SSEB attainment processing is restricted to records never handled by SCAMP, period of disability records, and annuitants who will attain their SSEB date of entitlement in the current processing month.

Explanations of the SSEB attainment categories follow.

#### **110.15.05 Age**

An annuitant attains his(her) SSEB date of entitlement the month (s)he would be eligible for an SS benefit for the whole month were the employee's railroad service covered under the social security system. This would be the month in which the annuitant attains the applicable age for his/her annuity as explained in sections 110.10.10 - 110.10.20.

TAS contains the annuitant's SSEB date of entitlement based on the type of annuity and automatically computes the SSEB at that time. A TL-123 or TL-124 notice will be sent to the annuitants 2-3 months in advance to advise them of the upcoming change in their taxable amount. See Exhibit 4 for a display of the TL-123 notice. See Exhibit 5 for a display of the TL-124 notice.

#### **110.15.10 Period of Disability Granted**

An employee or widow(er) annuitant can also attain an SSEB date of entitlement after five full months of being disabled under Social Security Act rules (a period of disability for employee annuitants or a disability rating for widow(er)s). This attainment of a period of disability can occur prior to the SSEB age attainment or after the SSEB age attainment. In cases where the period of disability is effective after age 62, the SSEB date of entitlement in TAS is still based on their ages, but their date of attainment of a period of disability is five full months after



the waiting period begins. At that time, the tier 1 amount becomes all SSEB by definition.

For employee annuitants, there are three types of period of disability, but only two of them are considered a period of disability for SSEB taxation purposes: a regular period of disability and an unilateral period of disability (where a joint period of disability is required but SSA has either not rated the employee yet or has rated the employee not disabled). A Medicare only period of disability is not considered a period of disability for SSEB purposes because the employee is not insured for an SS benefit and, therefore, wouldn't be eligible for a benefit under the social security system.

Form Letter RL-210, the AB-32 appeals backed paper for period of disability denials, and the period of disability denial code paragraphs explain the effect that a period of disability has on how railroad retirement benefits are taxed.

### **110.15.15 Development of Period of Disability After Age 65**

Because the granting of a period of disability changes the taxability of tier 1, a period of disability that would decrease the employee's tax liability for tax years 1986 and later may be to the employee's tax advantage, even if the employee is over age 65 when the period of disability is granted. However, since there are other categories of cases where the tier 1 is all SSEB, it is not necessary to develop for a period of disability for tax purposes in all situations. The types of cases where it may be to the employee's tax advantage to have a period of disability effective date prior to age 65 are those cases listed under section 110.10.15 (all NSSEB), and section 110.10.20 (SSEB/NSSEB split). The types of cases where it would have no effect on the employee's tax liability to develop for a period of disability when the employee is age 65 or older, are listed under section 110.10.10 (all SSEB).

## **115 Taxed Like a Contributory Private and Public Service Pension**

### **115.05 Taxed Like a Contributory Private and Public Service Pension**

Contributory private and public service pensions are taxed differently from social security benefits. Contributory pensions are only taxed on the part of the pension that exceeds the amount of contributions made by the wage earner. Whether the entire pension is excluded from taxation until the contributions are recovered or only a part of the pension is excluded from taxation until contributions are recovered depends on which recovery tax rule applies, Three-Year Rule or General Rule. The non-social security equivalent benefit (NSSEB) and the tier 2 of a railroad retirement annuity are considered contributory private or public service pensions for tax purposes.

The employee contribution amount is explained under section 115.10; the Three-Year Rule is explained under section 115.20; and the General Rule is explained under section 115.25.

<b>Non-SSEB Portion of Tier 1</b>	The non-social security equivalent benefit (NSSEB) portion of tier 1 of a railroad retirement annuity is the amount of tier 1 that exceeds the SSEB portion of tier 1. The NSSEB can equal the tier 1 amount, be less than the tier 1 amount, or be equal to zero. NSSEB payments for December 1985, and later, made in January 1, 1986, or later, are taxable as explained above.
<b>Calculation</b>	The NSSEB is calculated by subtracting the SSEB portion of tier 1 as calculated by SCAMP from the net tier 1 amount. The result is the NSSEB portion of tier 1. An NSSEB is calculated for those annuitants as explained under section 110.10.20.
<b>Defined Categories (all NSSEB)</b>	In certain cases, the annuitant is receiving a tier 1 amount but would not be eligible for SS benefits because (s)he does not meet the requirements for an age or disability benefit under the social security system. NSSEB, in these cases, is defined to be the entire tier 1. These categories are listed under section 110.10.15.
<b>Attainments (period of disability terminations)</b>	It is possible for annuitants to not have an NSSEB (everything is SSEB) and then to become entitled to an NSSEB (either part NSSEB or all NSSEB). This can happen if a period of disability terminates and the employee is either; 1) under age 62 (it becomes all NSSEB); or 2) the employee is age 62-64 (it becomes part NSSEB). Although this is not a true attainment, it is shown here for informational purposes.
<b>Tier 2</b>	The entire tier 2 of a railroad retirement annuity is considered a contributory private or public service pension for tax purposes. Tier 2 payments for December 1983 and later, paid January 1, 1984 or later, are taxable as explained above. Payments for months before December 1983 are not taxable, even if paid in 1984 or later.

## 115.10 How Employee Contribution Amount Is Computed

The amount of the employee contributions is the amount the employee paid in Railroad Retirement Act (RRA) taxes exceeding the amount that would have been paid in FICA taxes under SSA. The employee contribution (EEC) amount is computed from the day the employee started working in the railroad industry.

The EEC formula is provided for information only. Examiners should secure the EEC as explained in RCM Chapter 7.4, Appendix A, or access the Contribution and Recovered Data (CONTRI/RECV) screen of the general TAX screens. Refer to TOM 3105.25.

### **Standard Formula**

The EEC is computed by applying the annual RR tax rate and the annual SS tax rate to each year's compensation, up to the respective maximums. The difference between these two figures is the EEC for the year. The total EEC amount is determined by totaling the EEC for all years.

The standard formula cannot be used for the following periods:

- 1937 – 1950
- 1959
- 1965
- 10/73 - 9/81
- 10/81 – Present

The EEC in these periods is explained below:

### **Earnings in 1937 - 1950 period**

The total maximum creditable earnings in this period are identified. The total earnings in the period 1937-1950 are broken down using the yearly maximum of \$3,600.00 as follows:

Step	Action
1	The total earnings are divided by \$3,600.00 to determine the number of years (up to 14) to which earnings should be attributed.

2	The earnings for that number of years are attributed at \$3,600.00 per year beginning with 1950 and going backwards.
3	The last year will be a partial earnings amount less than \$3,600.00.

As long as \$3,600.00 is attributed to a year in this period, the additional RRA taxes paid for that year based on earnings of \$3,600.00 will be considered the employee contribution for that year. In 1950, this is \$171.00; in 1949, \$186.00, etc. As the earnings in this period are broken down, earnings in the final year counted are less than \$3,600.00. Whatever amount is left is attributed to that year. The additional RRA tax for that year is based on the actual earnings attributed, rather than \$3,600.00.

### **1959 period**

In 1959, the earnings base and RR tax rate changed. There is no access to a monthly breakdown, so if the employee did not work all 12 months, we don't know in which months the \$1,750.00 earnings base and 6.25% tax rate applies, and in which months the \$2,880.00 earnings base and 2.75% tax rate applies. An average tax rate is used to determine the EEC. The 1959 tier compensation is multiplied by the factor .040578 to determine the EEC for 1959. The 1959 gross amount is not used and the RR maximum creditable compensation of \$4,550.00 cannot be exceeded. The factor (.040578) is determined as follows:

Step	Action		
1	TOTAL RR TAX BASED ON MAX IN 1959 / TOTAL RR MAX EARNINGS IN 1959		
	$\$298.38 / \$4,550.00 = .065578$		
2	TOTAL SS TAX BASED ON MAX IN 1959 / TOTAL SS MAX EARNINGS IN 1959		
	$\$113.75 / \$4,550.00 = .025$		
3	Step 1	-	Step 2
	065578	-	.025000

### **1965 period**

The RR tax rate changed in October 1965, from 8.125% to 7.125%. The months of service are identified in the record for 1965. If the employee has less than 12

months of service in 1965, the compensation per month is averaged by dividing the compensation by the months of service. Which months the employee worked are determined, and the appropriate tax rate is applied to the average earnings for those months. The SS maximum is not exceeded when determining the SS tax amount.

**EXAMPLE:** The employee had 10 months in 1965 and earned \$3,588.79; he worked March through December. The average monthly earnings are \$358.88.

For the period 3/65 - 9/65:

COMP	RR TAX RATE	RR TAX	SS TAX RATE	SS TAX	EEC
2,512.16	8.125%	204.11	3.625%	91.07	113.04

For the period 10/65 - 12/65:

COMP	RR TAX RATE	RR TAX	SS TAX RATE	SS TAX	EEC
1,076.65	7.125%	76.71	3.625%	39.03	37.68
1965 EEC = 150.72					

### **10/73 - 9/81 period**

The RR and SS tax rates and creditable compensation maximums are the same for this period. Therefore, the employee contribution amount, for each year in this period, is zero.

### **10/81 - current period**

The tier 1 tax rate and creditable compensation maximum are equivalent to the SS tax rate and compensation maximum for this period, as during the period 10/73 through 9/81. However the employee contribution amount for each year in this period equals a 2% tax on the tier 2 compensation. The tier 1 calculation is eliminated.

To determine the compensation for the periods 1/73 - 9/73 and 10/81 - 12/81, when an employee has less than 12 months in either of these years, the earnings per month are averaged and allocated to the actual months worked, as described in the section for 1965.

The employee contribution amount was incorrectly computed for 1988 based on an incorrect tier 2 tax rate of 4.25% that was used in the computation. The

correct tier 2 tax rate for 1988 is 4.9%. All tax records in which the employee contribution amount included 1988 compensation were corrected in 1990.

### **SUMMARY**

The following table summarizes the EEC calculation. The compensation amounts shown are the maximum amounts. All the dollar amounts entered are for demonstration purposes only. The percentages will be used for every employee.

YEAR	RR TAX			SS TAX			EMPLOYEE
	COMP	X RATE	= RR TAX	COMP	X RATE	= SS TAX	CONTRIBUTION
1937	3600	2.75	99.00	3000	1.0%	30.00	69.00
1938	3600	2.75	99.00	3000	1.0%	30.00	69.00
1939	3600	2.75	99.00	3000	1.0%	30.00	69.00
1940	3600	3.00	108.00	3000	1.0%	30.00	78.00
1941	3600	3.00	108.00	3000	1.0%	0.00	78.00
1942	3600	3.00	108.00	3000	1.0%	30.00	78.00
1943	3600	3.25	117.00	3000	1.0%	30.00	87.00
1944	3600	3.25	117.00	3000	1.0%	30.00	87.00
1945	3600	3.25	117.00	3000	1.0%	30.00	87.00
1946	3600	3.50	126.00	3000	1.0%	30.00	96.00
1947	3600	5.75	207.00	3000	1.0%	30.00	177.00
1948	3600	5.75	207.00	3000	1.0%	30.00	177.00
1949	3600	6.00	216.00	3000	1.0%	30.00	186.00
1950	3600	6.00	216.00	3000	1.5%	45.00	171.00
1951	3600	6.00	216.00	3600	1.5%	54.00	162.00
1952	3600	6.25	225.00	3600	1.5%	54.00	171.00
1953	3600	6.25	225.00	3600	1.5%	54.00	171.00
1954	3900	6.25	243.75	3600	2.0%	72.00	171.75

1955	4200	6.25	262.50	4200	2.0%	84.00	178.50
1956	4200	6.25	262.50	4200	2.0%	84.00	178.50
1957	4200	6.25	262.50	4200	2.25%	94.50	168.00
1958	4200	6.25	262.50	4200	2.25%	94.50	168.00
1959	Multiply comp. (up to 4550) by .040578 to get 1959 EEC						184.63
1960	4800	6.75	324.00	4800	3.0%	144.00	180.00
1961	4800	6.75	324.00	4800	3.0%	144.00	180.00
1962	4800	7.25	348.00	4800	3.125%	150.00	198.00
1963	4900	7.25	355.25	4800	3.625%	174.00	181.25
1964	5400	7.25	391.50	4800	3.625%	174.00	217.50
1/65-9/65	4050	8.125	329.06	3600	3.625%	130.50	198.56
10/65-12/65	1350	7.125	96.19	1200	3.625%	43.50	52.69
1966	6600	7.95	524.70	6600	4.2%	277.20	247.50
1967	6600	8.65	570.90	6600	4.4%	290.40	280.50
1968	7800	8.90	694.20	7800	4.4%	343.20	351.00
1969	7800	9.55	744.90	7800	4.8%	374.40	370.50
1970	7800	9.55	744.90	7800	4.8%	374.40	370.50
1971	7800	9.95	776.10	7800	5.2%	405.60	370.50
1972	9000	9.95	895.50	9000	5.2%	468.00	427.50
1/73 - 9/73	8100	7.125	577.12	8100	3.625%	293.63	283.49
10/73-12/73	2700	5.85	157.95	2700	5.85%	157.95	0
1974	13200	5.85	772.20	13200	5.85%	772.20	0
1975	14100	5.85	824.85	14100	5.85%	824.85	0
1976	15300	5.85	895.05	15300	5.85%	895.05	0

1977	16500	5.85	965.25	16500	5.85%	965.25	0
1978	17700	6.05	1070.85	17700	6.05%	1070.85	0
1979	22900	6.13	1403.77	22900	6.13%	1403.77	0
1980	25900	6.13	1587.67	25900	6.13%	1587.67	0
1/81- 9/81	22275	7.125	1587.09	22275	3.625%	807.47	779.62
10/81 - 12/81	T1 7425	6.65	493.76	7425	6.65%	493.76	0
	T2 5550	2.00	111.00	-	-	-	111.00
1982	T1 32400	6.70	2170.80	32400	6.7%	2170.80	0
	T2 24300	2.00	486.00	-	-	-	486.00
1983	T1 35700	6.70	2391.90	35700	6.7%	2391.90	0
	T2 26700	2.00	534.00	-	-	-	534.00
1984	T1 37800	*7.00	2646.00	37800	7.0%	2646.00	0
	T2 28200	2.75	775.50	-	-	-	775.50
1985	T1 39600	7.05	2791.80	39600	7.05%	2791.80	0
	T2 29700	3.50	1039.50	-	-	-	1039.50
1986	T1 42000	7.15	3003.00	42000	7.15%	3003.00	0
	T2 31500	4.25	1338.75	-	-	-	1338.75
1987	T1 43800	7.15	3131.70	43800	7.15%	3131.70	0
	T2 32700	4.25	1389.75	-	-	-	1389.75



1988	T1 45000	7.51	3379.50	45000	7.51%	3379.50	0
	T2 33600	4.90	1646.40	-	-	-	1646.40
1989	T1 48000	7.51	3604.80	48000	7.51%	3604.80	0
	T2 35700	4.90	1749.30	-	-	-	1749.30
1990	T1 51300	7.65	3924.45	51300	7.65%	3924.45	0
	T2 38100	4.90	1866.90	-	-	-	1866.90
1991	T1 53400	7.65	4085.10	53400	7.65%	4085.10	0
	T2 39600	4.90	1940.40	-	-	-	1940.40
Total Through 1991:							20628.99

\*Employees received a credit of 0.3% in 1984.

### 115.15 How Employee Contributions Are Recovered

As explained in section 115.05, contributory pensions are only taxed on the part of the pension remaining after the contributions have been recovered. The method used to determine how contributions are recovered depends upon which recovery rule applies, Three-Year Rule or General Rule.

Under the Three-Year Rule, any NSSEB/tier 2 benefits paid under a railroad account number to the employee, spouse, and/or survivor(s) from their annuity beginning date are applied towards recovery of the employee contributions. No part of the NSSEB/tier 2 benefit is taxable until the total of all NSSEB/tier 2 benefits paid under the employee's account equals or exceeds the amount of the employee's contributions. These contributions should be recovered within a 36-month period.

Under the General Rule, part of the NSSEB/tier 2 benefit is nontaxable and the remainder is taxable immediately from the annuity beginning date. Only the nontaxable amount paid to employees and survivors goes toward recovery of the employee contributions. Spouses do not have a nontaxable amount and do not recover employee contributions.

[Effective for tax year 1992, contribution recovery processing, as well as General Rule computations, will be eliminated. Tax statements released in January 1993 for the 1992 tax year will not contain contribution recovery data.]

### **115.20 Three-Year Rule**

The Three-Year Rule provision of the Internal Revenue Code applies for annuities beginning before July 2, 1986. By definition the Three-Year Rule is applied if the employee contributions can be recovered from NSSEB/tier 2 benefits paid under the employee's claim number within a 36-month period, or three years.

On September 6, 1992 and October 30, 1992, all cases that were unrecovered under the Three-Year Rule (002), or whose tax rule code was undetermined (000) were converted to a tax rule code of General Rule, Unrecovered - Temporary Determination (015).

#### **115.20.05 How Annuitants Were Affected**

Generally, annuities with beginning dates prior to July 2, 1986, are covered under the Three-Year Rule and those with beginning dates after July 1, 1986, are covered under the General Rule. Based on an administrative decision, however, the Tax Accounting System (TAS) did not process cases under the General Rule until the Three-Year Rule was eliminated effective July 2, 1986. Since TAS was not able to implement the General Rule provision timely, the Three-Year Rule computations were applied to all annuitants on the rolls until that time, unless an inquiry was made regarding General Rule taxes for 1986. In such case, a manual corrected statement was issued for 1986 reporting tax information under the General Rule.

#### **115.20.10 NSSEB/Tier 2 All Nontaxable Until Contributions Recovered**

Under the Three-Year Rule, an annuitant can receive NSSEB/tier 2 benefits tax-free until the employee's contributions have been recovered. Until the contributions are recovered, no part of the NSSEB/tier 2 benefit payable to any family member is taxable.

#### **115.20.15 NSSEB/Tier 2 Taxable When Contributions Recovered**

Under the Three-Year Rule, NSSEB/tier 2 benefits become fully taxable only after the NSSEB/tier 2 benefits paid under the employee's claim number exceed the amount of the employee contribution.

NOTE: The Internal Revenue Service (IRS) states in Publication 575 that 1989 was the last year amounts could be excluded on tax returns under the Three-Year Rule. IRS also advised that these excluded amounts should be removed

from tax statements. Therefore, effective in 1992, TAS converted all remaining unrecovered Three-Year Rule cases to General Rule.

### **115.25 General Rule**

The General Rule provision of the Internal Revenue Code repealed the Three-Year Rule for annuities beginning after July 1, 1986. The General Rule applies to these annuities and allows for the taxation of part of the NSSEB/tier 2 benefit from the annuity beginning date. The remainder is tax free from the annuity beginning date.

Beginning with tax year 1992, the Railroad Retirement Board no longer tracks or reports taxable and nontaxable amounts under the General Rule. Tax statements released in January of 1993 for the 1992 tax year will not contain taxable amounts.

#### **115.25.05 Annuitants Affected**

Generally, annuities with beginning dates after July 1, 1986, are covered under the General Rule. However, for multiple annuitants paid on the same employee record, the annuity beginning date for the first retirement and survivor annuitant paid determines the applicable tax rule for each retirement or survivor annuitant. See section 115.25.20 .

Annuitants with an ABD/OBD of July 2, 1986, and later, who have NSSEB/tier 2 benefits are affected by the General Rule. The only exceptions to this are explained in section 115.25.20. To correctly apply the General Rule to annuitants paid in 1986 and 1987, a General Rule mass adjustment was run after the December 1987 cost-of-living operation to determine the nontaxable NSSEB/tier 2 amounts and to correct the taxable NSSEB/tier 2 amounts for these annuitants under General Rule computations for 1987. See TOM 400 for a description of the General Rule mass adjustment.

General Rule computations for new annuitants coming on the rolls after the December 1987 mass adjustment were implemented in 1988.

There are two categories of annuitants covered under the General Rule. The first category includes those with ABD/OBDs of July 2, 1986, through December 31, 1986. These are generally referred to as 1986 General Rule cases. These annuitants are entitled to a permanent nontaxable NSSEB/tier 2 amount, which remains static for the life of the annuitant. The second category includes those annuitants with ABD/OBDs after December 31, 1986. These are generally referred to as 1987 General Rule cases. These individuals are entitled to a "temporary" nontaxable NSSEB/tier 2 amount until the employee contributions have been fully recovered.

### **115.25.10 A Portion of NSSEB/Tier 2 Nontaxable From ABD**

Under the General Rule, part of the tier 2/NSSEB is nontaxable and the remainder is taxable immediately from the annuity beginning date. The nontaxable portion represents a prorated return of the employee's investment (the employee contributions). The nontaxable amount is computed based on the amount of the employee contributions and the expected return, which is the total amount of annuities expected to be received by the annuitant based on life expectancy factors at the annuity beginning date.

As explained in section 115.25.05, the nontaxable amount is permanent and remains static for the life of the annuitant for 1986 General Rule cases. This means that recovery of the employee contributions is immaterial. The nontaxable amount continues even if the contributions have been recovered.

However, for 1987 General Rule cases, although the computation of the nontaxable amount is static, the total nontaxable amount received is limited to the amount of the employee's unrecovered contributions. Once the total of all nontaxable NSSEB/tier 2 payments made to the employee and/or survivors exceed the amount of the employee contributions, the NSSEB/tier 2 components become fully taxable. In some cases, the contributions may be recovered before the annuitant dies, because he or she has outlived his or her life expectancy.

See section 115.25.25 for an explanation of how the nontaxable amount is calculated.

### **115.25.15 Spouse Annuity is All Taxable From the ABD**

The NSSEB/tier 2 components of a spouse annuity are considered fully taxable from the annuity beginning date under the General Rule. Therefore, no part of the spouse's NSSEB/tier 2 (or divorced spouse's NSSEB) can be used toward recovery of the employee contributions.

### **115.25.20 Determining Applicable Tax Rule**

The initial determining factor used in assessing which tax rule to apply - General Rule or Three-Year Rule - is the ABD/OBD. As long as the ABD/OBD is before July 2, 1986, the Three-Year Rule will apply. [The exceptions are the old Three-Year Rule unrecovered cases that converted to General Rule in 1992.]

However, there are certain situations where the ABD/OBD is not the determining factor in applying the appropriate tax rule:

- **Retirement cases** - If an employee is a Three-Year Rule case and the spouse comes on the rolls with an ABD of August 1, 1986, the Three Year Rule will also be applied to the spouse even though her ABD is after July 1, 1986. The NSSEB/tier 2 payments made to both the employee and the spouse will be

applied toward recovery of the contributions and will not become taxable until the contributions are recovered.

- Survivor cases - If the employee was under the Three-Year Rule, the survivor can be under the General rule if the OBD is July 2, 1986, or later. Likewise, if the employee was a 1986 ABD General Rule case, the survivor can be a 1987 ABD General Rule case. For survivors, the tax rule determination and General Rule calculation are re-done based on the survivor's OBD, his or her age at the OBD, and the amount of any unrecovered contributions.

For example, in the case of a spouse to widow conversion, a new tax rule determination is made for the widow based on her new OBD. If she had previously been a spouse under the Three-Year Rule, she can now be under the General Rule if her OBD is July 2, 1986, or later. If the employee had been a 1986 ABD General Rule case and the widow had been a General Rule spouse with a fully taxable NSSEB/tier 2, she can now be a 1987 OBD General Rule case, providing her OBD is January 1, 1987, or later. In such cases, if the employee's contributions have not yet been recovered, the widow will be entitled to a nontaxable amount of her NSSEB/tier 2 payments until the contributions have been fully recovered. Thereafter, her NSSEB/tier 2 will become fully taxable

However, in the case of a survivor family group or split-family group, if the first annuitant paid is a widow covered under the Three-Year Rule, and a child becomes entitled later with an OBD in 1987, the child will also be considered a Three-Year Rule case as long as the widow is still in current payment status or in suspense. (Annuitants in suspense are still considered on the rolls and, therefore, still entitled.) The entire NSSEB/tier 2 payments received by both the widow and the child will be applied toward recovery of the contributions and will not become taxable until the contributions are recovered.

Likewise, in a survivor family group or split-family group, if the first annuitant on the rolls is covered under the General Rule with an OBD of August 1, 1986, and is still entitled when a subsequent annuitant comes on the rolls later, the new annuitant will also be covered under the General Rule as an individual with an OBD in 1986, even though the subsequent survivor's actual OBD may be January 1, 1987 or later. The computation of the permanent nontaxable NSSEB/tier 2 would not change, and recovery of the employee contributions does not have to be considered for all survivors on the rolls.

- Existence of Continuous Entitlement - A distinction should be made here between a situation where there is continuous entitlement and one in which there is no continuous entitlement. Applying the appropriate tax rule when there is new entitlement and there are multiple annuitants involved, depends on whether or not the annuitant(s) from the previous entitlement is/are still in current pay status, or in suspense, at the OBD of the newly entitled annuitant. (Annuitants in suspense are still considered on the rolls and, therefore, still

entitled.) This new annuitant could either be entitled for the first time or could now be entitled again after having been previously terminated. As long as there is one annuitant still currently entitled at the OBD of the new entitlement, the tax rule for the new annuitant will be the same as the annuitants who are still currently entitled. If all annuitants from a previous entitlement have terminated, and a new annuitant comes on the rolls subsequently, a new tax rule determination will be made.

The same is true in a retirement case, where an employee's disability annuity terminates because he has recovered and he later becomes entitled to a new annuity based on age and service. If his disability annuity was considered under the Three-Year Rule and his age and service annuity begins after July 1, 1986, the tax rule can be recalculated now to be under the General Rule.

In summary, whichever tax rule is applied to the first retirement or survivor annuitant on the rolls, the same tax rule is applied to any subsequent annuitants in the same family or split-family group later coming on the rolls, as long as there is continuous entitlement of one or more annuitants. If there is no continuous entitlement, a new tax rule determination will be made.

- Change in ABD/OBD - There are also situations where an annuitant can change from a Three-Year Rule case to a General Rule case or vice versa. This can happen if there is a change in ABD/OBD. This involves a new entitlement or change in entitlement; therefore, a recalculation of the tax rule is allowed. Any benefits not due from the "erroneous" entitlement must be repaid and any contributions recovered will be added back into the contribution amount to be recovered. In retirement cases, the change in tax rule will be effective for both the employee and spouse. In survivor cases, all annuitants paid under the claim number are affected. A change in tax rule for survivors can only happen if the first annuitant's OBD changes.

In the situation where an annuitant's tax rule changed during the tax year, two annual statements will be released, one showing Three-Year Rule information and the other General Rule information. The most common situations are spouse to widow conversion cases, where the widow(er) could have been a spouse under the Three-Year Rule and then converts to a widow(er) under the General Rule. This could also apply to employees who were under the Three-Year Rule for part of the year and become General Rule upon a new entitlement for the rest of the year.

For those annuitants still in partial payment status at the end of the year, their annuity statements will reflect the tax rule determined based on the partial ABD. If the partial ABD determined the tax rule to be the General Rule, but once they are paid final in the next tax year the final ABD is determined to be prior to July 2, 1986, the tax rule must be changed to Three-Year Rule and a corrected statement for the previous tax year should be released.

### **115.25.25 Calculating the General Rule Exclusion Amount**

The following describes how the General Rule exclusion amount, or nontaxable amount, is calculated:

- How the Family Nontaxable Amount is Determined - The nontaxable amount is based on several factors:

First Monthly Rate - This is the NSSEB/tier 2 after deductions for actuarial adjustment, waiver, or work deductions paid on the first final recurring rate to the employee or all first paid survivors.

Expected Return - This is the total NSSEB/tier 2 (based on the first final monthly rate) expected to be paid to the employee or all first paid survivors over the life of the annuity.

Exclusion Factor - This is the result of dividing the amount of the unrecovered contributions as of the ABD/OBD by the expected return.

Family Monthly Nontaxable Amount - This is the first monthly rate multiplied by the exclusion factor. This is also called the tax-free amount or the exclusion amount.

- How Each Annuitant's Monthly Nontaxable Amount is Determined --

Retirement - The family monthly nontaxable amount applies only to the employee NSSEB/tier 2.

Survivor - The family monthly nontaxable amount is distributed among all survivor annuitants by proration; it is redistributed if a new survivor annuitant comes on the rolls or a survivor is terminated.

- How to Compute the Nontaxable Amount in an Accrual - The computation of the nontaxable portion of an accrual will depend on what type of payment resulted in the accrual:

Recertifications - If the payment is a regular recertification increasing rates previously paid (the award covers a period in which the annuitant already received paid amounts), the entire accrual is considered taxable. This is because the monthly nontaxable amount originally computed must remain static, whether the annuity rate subsequently goes up or down. Therefore, the amount the accrual represents is the taxable portion of the annuity, which can change with any annuity adjustment. Accruals from recertifications where a portion of the accrual was used to recover an overpayment are treated in the same manner. The entire NSSEB/tier 2 accrual is taxable.

For partial to final awards, the monthly nontaxable amount is first recalculated based on final rate information and then multiplied by the number of months covered in the accrual going back to the ABD. All the nontaxable amounts considered while in partial payment status are subtracted from this nontaxable amount computed. The result is the nontaxable portion of the accrual.

In zero accrual recertification situations, where the accrual was withheld to offset an overpayment, the withheld accrual, which normally would have been paid out, is considered entirely taxable. If no accrual would be paid because the recertified rates are lower than the previously paid rates, no nontaxable/taxable amounts are computed.

Initial Awards/Reinstatements - To determine the nontaxable portion of an accrual resulting from an initial award or a reinstatement award, the number of months covered in the accrual period is first determined. That number is multiplied by the monthly nontaxable amount originally computed. The result is the nontaxable portion of the accrual.

Reinstatement/Recertifications - To determine the nontaxable portion of an accrual resulting from a reinstatement/recertification award, the net paid amount of the accrual is first determined. The exclusion percentage is then applied to that amount. The exclusion percentage was originally computed when the annuitant was paid final. The net paid amount of the accrual is determined by taking the sum of the accrual NSSEB/tier 2 paid amounts (after 1983) minus any actuarial adjustments and annuity waiver. The resulting nontaxable amount cannot exceed the amount of the accrual.

Spouse to Widow Conversions - The accrual from a spouse to widow conversion is not treated like an initial award accrual but is similar. To determine the nontaxable portion of the accrual from a spouse to widow award, the number of months since the widow(er)'s OBD is computed. That amount is multiplied by the new recurring NSSEB/tier 2 nontaxable amount computed for the widow(er). (This nontaxable amount is based on the amount of unrecovered contributions as of the spouse to widow award.) The result is the nontaxable portion of the accrual. This handling applies to General Rule widow(er)s who were previously General Rule spouses.

The spouse to widow accrual for General Rule widow(er)s who were previously Three-Year Rule spouses with unrecovered employee contributions are handled differently. This accrual is considered fully taxable. No nontaxable amounts are computed (these widow(er)s would be receiving a larger nontaxable amount than to which they are entitled). Their NSSEB/tier 2 was nontaxable during the interim widow period when a portion of it should have been taxable as a General Rule widow(er). If nontaxable NSSEB/ tier 2 amounts were computed on the spouse to widow accrual equal to the number of months in the accrual times the widow(er)'s monthly



nontaxable NSSEB/tier 2 amount, the widow(er) would be receiving too much in nontaxable amounts and too little in net taxable amounts. Therefore, the entire accrual is considered taxable. Although the taxable accrual may be overstated, the widow(er)'s first regular monthly payment and later payments will be correctly split between a taxable and nontaxable portion.

A General Rule widow(er) who was previously a Three-Year Rule spouse with the employee contribution fully recovered has a fully taxable spouse to widow accrual since the NSSEB/tier 2 was fully taxable while a spouse and is

NOTE: For those General Rule widow(er)s who were previously General Rule spouses, it may be possible for a negative net taxable NSSEB/tier 2 amount to be computed if the nontaxable NSSEB/tier 2 amount is accrual. If so, the negative amount may or may not balance out by subsequent net taxable amounts during the rest of the tax year, depending on whether or not entitlement continues. If entitlement ceases while the negative net taxable amount exists, there is nothing taxable for the year.

### **115.25.30 Explanation of Form G-310**

General Rule calculations are automatically performed by certain TAX programs. The General Rule exclusion amount, or monthly nontaxable amount, can also be computed manually on Form G-310, WORKSHEET TO ESTIMATE GENERAL RULE NONTAXABLE AMOUNT. A more detailed explanation of the use of Form G-310 is in TOM 3200.

Form G-310 is used by TAX examiners when preparing manual original or corrected tax statements. Common situations when Form G-310 is used are in partial to final awards, spouse to widow conversions, and survivor family group situations, where payees drop in and out, causing redistribution of the monthly nontaxable amount.

### **115.25.35 When to Recompute the Exclusion Amount**

Under the General Rule, there are only a few situations when the nontaxable amount should be recomputed:

Partial to final cases - When an annuity is recertified from partial to final payment status, the nontaxable portion of the NSSEB/tier 2 is recomputed based on the final monthly NSSEB/tier 2 component(s).

If the annuity is still in partial payment status at the end of the year and has been determined to be covered under the General Rule, the annuitant's annual statement will reflect taxable amounts based on the partial ABD and partial rate information.

Initial final awards - Once the tax rule determination has been made and the General Rule calculations of the nontaxable amount have been made, there is no need for any recomputation of the nontaxable amount unless the ABD/OBD changes.

Return to Railroad Service - No Recomputation - If a General Rule employee returns to railroad service, there is no new tax rule determination or recalculation of nontaxable amounts when he becomes re-entitled. Since the employee is only in suspense while he returns to railroad service, he does not get a new ABD when he ceases work. Therefore, the nontaxable amount calculated originally at his ABD remains the same after he becomes re-entitled to a railroad annuity. However, any additional contributions the employee accumulated during his return to railroad service are added to any unrecovered contributions, the total of which must be recovered before the NSSEB/tier 2 become fully taxable (in cases where the ABD is January 1, 1987, or later).

Annuity Rate Adjustments - No Recomputation - If the NSSEB/tier 2 increases due to cost-of-living or other annuity adjustments, or if it decreases due to SSA entitlement, age 62 attainment, period of disability attainment, vested dual benefit attainment, or date of birth change, etc., the nontaxable portion of the NSSEB/tier 2 is not recomputed.

Change in Survivor Family Group Composition - In the case of a survivor family group or split-family group, where annuitants drop in and out, the family's total monthly nontaxable amount computed at the initial entitlement never gets recalculated upon a new entitlement as long as one or more annuitants are still in current pay status at that time. A family's total monthly nontaxable amount gets prorated among all the beneficiaries in current pay status by a ratio of:

$$\frac{\text{annuitant's monthly NSSEB/tier 2}}{\text{family's total monthly NSSEB/tier 2}}$$

Therefore, if one drops out or a new annuitant comes on the rolls, the family's total monthly nontaxable amount simply gets re-prorated according to the ratio based on the new NSSEB/tier 2 rates (if recomputed) among the annuitants.

If a new annuitant comes on the rolls and there are no others in current pay status under the same claim number, a new tax rule determination is made and a new nontaxable amount (based on the amount of unrecovered contributions) is recomputed.

## **115.30 Simplified General Rule**

In 1988, IRS introduced a new method of computing taxable/nontaxable amounts for General Rule cases, called the Simplified General Rule.

The Simplified General Rule does not change any of the taxation concepts that apply under the General Rule. The same concepts also apply under the Simplified General Rule. However, the difference between the two rules is that the computations of the taxable/nontaxable amounts under the Simplified General Rule are much less complex than those under the regular General Rule.

### **115.30.05 When the Simplified General Rule May Be Applied**

General Rule annuitants (ABD is after July 1, 1986) may choose to use the more simple method of computing their taxable/nontaxable NSSEB/tier 2 amounts by applying the Simplified General Rule only if they are employee or survivor beneficiaries entitled for life and under age 75 as of the annuity beginning date. Young widow(ers), minor children, and students who have fixed periods of entitlement cannot use the Simplified General Rule.

If chosen as the method of computation, the Simplified General Rule may be applied effective with tax year 1988. Taxpayers may also change from the General Rule to the Simplified General Rule (or the other way around) for prior years by filing amended returns for all their tax years beginning with the year in which the first annuity payment was received. Generally, the change may be retroactive to 3 prior years. If a change is made, the same method must be used for all tax years unless the taxpayer chooses the Simplified General Rule for 1988 and later years but not for 1986 or 1987. In such case, if the annuity beginning date is after July 1, 1986, and before January 1, 1988, the taxpayer can start to use the Simplified General Rule in 1988 without amending the 1986 or 1987 returns. The taxpayer has the option to amend both the 1986 and 1987 returns to apply the Simplified General Rule if he chooses to apply it to 1988. However, he cannot amend 1987 without also amending 1986 (providing the first annuity was received in 1986).

### **115.30.10 How to Calculate the Taxable/Nontaxable Amount**

IRS has devised a worksheet for General Rule taxpayers to use in computing their taxable/nontaxable pension or annuity amounts under the Simplified General Rule. This WORKSHEET FOR SIMPLIFIED GENERAL RULE appears in IRS Publication 575, Pension and Annuity Income (Including Simplified General Rule). Railroad retirement annuitants may use the worksheet to compute their taxable/ nontaxable NSSEB/tier 2 amounts. Items 4, 14, and 15 on Form RRB-1099-R (W-2P) provide the annuitant with the information he or she needs to complete the worksheet. (However, effective with tax statements for the 1992 tax year, these items will no longer be provided on the statement, except for the contributory amount paid item. The statements will no longer report taxable

contributory amounts. Annuitants must begin calculating the taxable and tax-free portion of their NSSEB-tier 2 payments under either the General Rule or the Simplified General Rule, whichever method they prefer.)

TAS was not changed to compute the General Rule under the simplified method since the Simplified General Rule calculation is an option for the taxpayer. Any inquiries received on Simplified General Rule computations should be referred to the IRS.

### **115.35 When Employee Contributions Are Recovered**

Contribution recovered amounts and contribution recovery dates are automatically computed by various TAX programs. Contribution recovery can also be computed manually by TAX examiners on Form G-1009, WORKSHEET TO DETERMINE THE EMPLOYEE CONTRIBUTION RECOVERED AMOUNT.

[Effective for tax year 1992, contribution recovery processing, as well as General Rule computations, will be eliminated. Tax statements computed for the 1992 tax year and on, will not include contribution recovery data.]

#### **115.35.05 Explanation of Form G-1009**

Form G-1009, WORKSHEET TO DETERMINE THE EMPLOYEE CONTRIBUTION RECOVERED AMOUNT is used by TAX examiners when preparing manual tax statements and when correcting the claim tax record of the taxation database, where contribution recovery data reside.

In Three-Year Rule cases, Form G-1009 is used when the employee contributions cannot be deemed to be recovered. That is, if the annuitant came on the rolls after December 1983, a determination must be made whether the employee contributions have been recovered. The actual amount of all NSSEB/tier 2 benefits paid under the employee's claim number must be added up and compared to the employee contribution amount.

In General Rule cases, only the nontaxable portions of the NSSEB/ tier 2 paid to employees and survivors should be included in these computations. The difference between the contribution amount and the total of contributions recovered to date is then divided by the total NSSEB/tier 2 amount payable (or paid) to all family members. The result is the number of months it would take before contributions are recovered and the NSSEB/tier 2 become fully taxable (in Three-Year cases and 1987 General Rule cases). The contribution recovery date is determined based on the computed number of months from the ABD/OBD.

### **115.35.10 TAX Daily Database Update**

The TAX daily database update programs perform contribution recovery processing. When daily activity (awards, suspensions, terminations, etc.) is updated to the taxation database by the daily database update program (DELTA), contribution recovery data is calculated and updated in the claim tax record of the database. DELTA will also calculate recovered amounts and contribution recovery dates for Three-Year Rule cases based on the activity being updated and from the last date contribution recovery data was updated. GRACE is the program that performs contribution recovery processing for General Rule cases. Net taxable and nontaxable NSSEB/tier 2 amounts are also calculated and posted in the recurring and nonrecurring rate records created from the activities being updated. If recovery occurs, the update programs will adjust and update tax rule codes as well as net taxable/nontaxable amounts. See TOM 600 for more detailed explanations of the TAX daily database update programs.

### **115.35.15 TAX Monthly Database Update**

Once a month, certain TAX programs request employee contribution amount data from the bureau of research and employment accounts for cases where the contribution amount is missing and updates this data to the taxation database. As part of the update process, contribution recovery is performed. Recovered amounts and recovery dates are calculated and posted to the claim tax record with net taxable and nontaxable NSSEB/tier 2 amounts derived and posted on a new recurring rate record opened.

The monthly TAS recertification (TAS Recert) run also can affect contribution recovery processing, but only as it goes through the daily check writing job stream and through DELTA/GRACE for update to the taxation database. See

TOM 600 for a description of the monthly database update program and TAS RECERT.

### **115.35.20 TAX Year-End Update**

In addition to the monthly request, there is a "year-end" request for employee contribution amount data from the bureau of research and employment accounts. This is not actually performed at year end, but it is usually performed once a year around August or September after the Railroad Retirement Board receives lag data from the railroads. Contribution recovery calculations and updates are performed in a manner similar to the monthly update.

The year-end statement operation also performs contribution recovery calculations, although it will not update them to the TAX database. The year-end calculations are performed because the total contribution recovered amount (through the current tax year), in addition to the employee contribution amount,

are reported on the annual tax statement to the annuitant. Therefore, the calculation is done for statement purposes only and only if contribution recovered amounts have not already been updated through the end of the tax year. If recovery occurs within the tax year, it will be reflected on the statement.

### **115.35.25 TAX Mass Adjustment Update**

TAX has a number of mass adjustment update programs that will call contribution recovery processing. The mass adjustment programs update the following to the taxation database: Cost-of-Living, RAIL, AERO, vested dual benefit cutback and restore, and SUP ANN cutback and restore adjustments. Contribution recovered amounts and contribution recovery dates are calculated and updated to the claim tax record. New recurring and/or nonrecurring rate records are created with net taxable and nontaxable NSSEB/tier 2 amounts posted accordingly. If recovery occurs, tax rule codes will also be adjusted and updated.

### **115.35.30 TAX Manual/On-Line Correction Programs**

The G-1102 manual correction system for nonrecurring rate record corrections also calls contribution recovery processing under both the Three-Year Rule and General Rule. In addition to posting a new nonrecurring rate record based on data manually input by TAX examiners, the claim tax record may also be adjusted for contribution recovery. If recovery occurs, a new recurring rate record may also be opened, reflecting a new tax rule code, and new net taxable and nontaxable NSSEB/tier 2 amounts. The new tax rule codes will also be reflected in the claim tax record and annuitant tax record.

The claim tax record on-line correction system, TAXCOR, calls contribution recovery processing only under the Three-Year Rule. Contribution recovery processing can be triggered by examiner on-line corrections/entries to the claim tax record. Recovered amounts, recovery dates, tax rules, and net taxable/nontaxable NSSEB/tier 2 amounts may be adjusted and updated in the claim tax record, annuitant tax record, recurring rate record, or nonrecurring rate record. If recovery under the Three-Year Rule occurs, all database records and fields will be adjusted and updated.

## **120 Taxed Like A Non-Contrib Private & Public Service Pension**

### **120.05 Taxed Like A Non-Contributory Private And Public Service Pension**

Non-contributory private and public service pensions are taxed differently than social security benefits and contributory private pensions. Since non-contributory private and public service pensions are not based on contributions by the wage earner, there are no contributions to recover before the non-contributory private and public service pension is taxable. Therefore, these types of pensions are taxable from the beginning date. The vested dual benefit and supplemental

annuity components of a railroad retirement annuity are taxable as non-contributory private or public service pensions.

#### **120.05.05 Vested Dual Benefit**

The entire vested dual benefit (VDB) component of a railroad retirement annuity due for the period December 1983 and later is taxable as a non-contributory private or public service pension amount from the annuitant's VDB date of entitlement. The VDB is taxable in the year in which paid.

#### **120.05.10 Supplemental Annuity**

The entire supplemental annuity (SUP ANN) of a railroad retirement annuity due for the period November 1966 and later is taxable as a [non-contributory] private or public service pension amount from the annuitant's SUP ANN date of entitlement. The SUP ANN is taxable in the year in which paid.

### **125 Residual Lump Sum and Lump Death Payment**

#### **125.05 Residual Lump Sum (RLS) Not Taxable**

The residual lump sum (RLS) guarantees the railroad employee and his survivors to receive as much in regular retirement and survivor benefits as the employee paid in railroad retirement taxes for the years 1937 through 1974. The RLS can be payable if no one is entitled to a monthly benefit in the month the employee died. If there is future entitlement, those rights may be waived. The RLS can be paid to a beneficiary designated by the employee. If there is no one designated by the employee, the RLS can also be paid to children, or to the deceased employee's estate.

For Federal income tax purposes, the RLS cannot be taxable until the employee contributions have been recovered. However, since the RLS represents a refund of the railroad retirement taxes withheld from the employee's pay prior to 1975 less any benefits (NSSEB, tier 2) already paid on the employee's account, it should never be taxable because it represents a return on the employee's contributions. Therefore, the RLS is a nontaxable payment.

#### **125.10 Lump Sum Death Payment (LSDP) Not Taxable**

The lump sum death payment (LSDP) is payable only if no one is entitled to a monthly benefit in the month the employee dies. The LSDP cannot be designated. It is payable to a widow(er) or payer of burial expenses. It can also be assigned to a funeral home by the person who assumes responsibility for paying the burial expenses.

For Federal income tax purposes, the LSDP is a nontaxable payment.

## 130 How States Tax Railroad Annuities

Section 14 of the Railroad Retirement Act (45 U.S.C. §231m) provides that no annuity or supplemental annuity shall be subject to any tax under any state law.

## 135 Crediting Payments and Repayments

### 135.05

Paid and repaid amounts made in the specific tax year are accumulated and reported on the annual tax statements.

### 135.10 Paid Amounts (PAIDS)

The following sections discuss how paid amounts are credited for each component of a railroad retirement annuity.

#### 135.10.05 SSEB/OM Pairs

SSEB/OM paid amounts consist of any SSEB/OM amounts paid or accreted to the annuitant's tax liability in the period of January 1984 or later. (Although SSEB was not effective until January 1986 the entire tier 1 payment from January 1984 through December 1985 are treated like SSEB for tax purposes.) SSEB payments are also accounted for by the taxable year for which they are paid. The annuitant can choose to apply the payments for prior taxable years to the year they were actually paid or to the years for which they were paid. (It may be more advantageous to apply the payment to the year for which the accrual was due if the annuitant's income was lower for that year.) Any payments for the period prior to January 1984 are not taxable. SSEB/OM paid amounts are before:

- Legal process (garnishment or assignment) offset;
- Workers' Compensation offset;
- Full or partial withholding;
- Accrual recovery for any RR/SUP ANN/SS/RUIA overpayment;
- SMI premium deduction;
- Tax withholding.

#### But after:

- Actuarial adjustment;
- Waiver;



- Work deductions.

### **135.10.10 NSSEB/Tier 2 Pairs**

NSSEB and tier 2 paid amounts consist of any NSSEB tier 2 amounts paid or accreted to the annuitant's tax liability in the specific tax year, regardless of what tax year the payment was for. NSSEB/tier 2 paid amounts are before:

- Legal process (garnishment or assignment) offset;
- Full or partial withholding;
- Accrual recovery for any RR/SUP ANN/SS/RUIA overpayment;
- SMI premium deduction;
- Tax withholding.

#### **But after:**

- Actuarial adjustment;
- Waiver;
- Work deductions;
- Workers' Compensation offset to the NSSEB only.

### **135.10.15 Vested Dual Benefit Pairs**

Vested dual benefit (VDB) paid amounts consist of any VDB amounts paid or accreted to the annuitant's tax liability in the specific tax year, regardless of what tax year the payment was for. VDB paid amounts are before:

- Legal process (garnishment or assignment) offset;
- Full or partial withholding;
- Accrual recovery for any RR/SUP ANN/SS/RUIA overpayment;
- SMI premium deduction;
- Tax withholding.

#### **But after:**

- Actuarial adjustment;

- Waiver;
- Work deductions;
- Cutback.

VDB Cutback - As stated above, the amount of VDB after cutback is taxable. Therefore, during the period in which the VDB was cut back, the amount that was actually paid the annuitant was considered taxable, not the amount that was cut back

VDB Restoration - When the VDB cutback amount is restored to the annuitant, the cutback amount will be taxable in the year it is paid, not in the year it was due.

### **135.10.20 Supplemental Annuity Paid**

Supplemental annuity (SUP ANN) paid amounts consist of any SUP ANN amounts paid or accreted to the annuitant's tax liability in the specific tax year, regardless of what tax year the payment was paid for. SUP ANN paid amounts are before:

- Accrual recovery for any RR/SUP ANN/RUIA overpayments;
- Tax withholding.

But after:

- Waiver;
- Cutback.

SUP ANN Cutback - As stated above, the amount of SUP ANN after cutback is taxable. Therefore, during the period in which the SUP ANN was cut back, the amount that was actually paid the annuitant was considered taxable, not the amount that was cut back.

SUP ANN Restoration - When the SUP ANN cutback amount is restored to the annuitant, the cutback amount will be taxable in the year it is paid, not in the year it was due.

### **135.15 Repaid Amounts (REPAIDS)**

The following sections discuss how repaid amounts are credited for each component of a railroad retirement annuity.

### **135.15.05 SSEB/OM Repaid**

SSEB/OM repaid amounts consist of any SSEB/OM amounts repaid, returned, or recovered for payments issued prior to death. This includes payments issued in a period or for a period prior to December 1983. SSEB/OM repaid amounts are attributable to the year in which received. Internal Revenue Code allows nontaxable SSEB/OM repaid amounts to be offset against taxable SSEB/OM paid amounts. Therefore, a net SSEB/OM amount can be a negative amount. This negative amount can be used to offset a positive amount on any other Form RRB-1099 or SSA-1099 the annuitant may receive. Generally, a repayment is prorated into the taxable tier components unless the overpayment was for a specific component (e.g., entitlement to an SS benefit caused an SSEB overpayment).

### **135.15.10 NSSEB/Tier 2 Repaid Under the Three-Year Rule**

- Three-Year Rule recovered - NSSEB/tier 2 repaid amounts consist of any NSSEB/tier 2 amounts repaid, returned, or recovered for the period December 1983 or later and issued for a period after the employee contributions are recovered and issued prior to death. NSSEB/tier 2 repayments are creditable for tax purposes only if the original payment was reported as taxable when paid.

Only repayments that are attributable to a specific tax year can be credited to that tax year (the year in which the overpayment was incurred or in which a returned payment was issued). Repayments made in any tax year may reduce that tax year's tax liability only to the extent that the current year's payments were "overpaid." Unlike SSEB, the net taxable amount for any year cannot be less than zero, regardless of the amount of repayment. The annuitant may need to amend a prior year income tax return to take into account a "credit" for a repayment attributable to an overpayment in a prior tax year. If the total NSSEB/tier 2 repayment in that year exceeds \$3,000, a "claim of right" may be exercised by the taxpayer (see IRS Publication 575 for details).

For the annuitant to determine what credit to take for the repaid amount, he should contact the Railroad Retirement Board to find out what years were involved in the overpayment.

Returned payments that were issued in the same tax year in which they were returned are not considered repaid, but are subtracted from the paid for that tax year.

- Three-Year Rule not recovered - NSSEB/tier 2 repaid amounts cannot be credited if the employee contributions have not been recovered. Any NSSEB/tier 2 payments made before employee contributions are recovered

are considered nontaxable. Therefore, if nontaxable amounts are repaid, returned, or recovered, no repaid credit is given for tax purposes.

### **135.15.15 NSSEB/Tier 2 Repaid Under the General Rule**

Under the General Rule, NSSEB/tier 2 repaid amounts are broken down between taxable and nontaxable repaid amounts. Under the Three-Year Rule, the entire NSSEB/tier 2 repaid amount attributed to a period for December 1983 or later, issued for a period after contributions are recovered, and issued prior to death, is considered a taxable repaid amount and, therefore, creditable for tax purposes. The only nontaxable repaid amounts under the Three-Year Rule are attributed to pre-1984 periods.

TAS determines taxable/nontaxable NSSEB/tier 2 repaid amounts under the General Rule as follows:

- Returned checks - When a payment issued for a period prior to death is returned, repaid amounts are broken down by tiers according to the payment structure in force at the time the payment went out. If the NSSEB/tier 2 of the original payment is broken down between net taxable and nontaxable paid amounts, the NSSEB/tier 2 repaid amounts for the returned check are broken down in the same net taxable and nontaxable repaid amounts.
- Full withholding - When payments are in suspense to recover an overpayment by full withholding, TAS posts corresponding paid and repaid amounts for every month the annuity is in suspense. If the NSSEB/tier 2 paid amount is broken down between net taxable and nontaxable amounts, the NSSEB/tier 2 repaid amount is also broken down between the same net taxable and nontaxable amounts.
- Partial withholding - When partial withholding is in force to recover an overpayment, if the tiers to which the overpayment is attributed are not available through manual award form entry, TAS prorates the repaid amount to the current tier rates in effect. If the NSSEB/tier 2 paid amount is broken down between net taxable and nontaxable amounts, then the NSSEB/tier 2 repaid amount is also broken down between the same net taxable and nontaxable amounts.
- Recovery from accrual - For overpayment recoveries from accruals, the net taxable and nontaxable repaid amounts are determined in the same manner as overpayment recoveries through partial withholding. That is, the total NSSEB/tier 2 repaid amount will be prorated between net taxable and nontaxable NSSEB/tier 2 based on the current recurring NSSEB/tier 2 rate.
- Cash refund - Currently, cash refunds are entered into TAS through the manual correction system by TAX examiners. By accessing payment information through the TAX screens, the amount of the cash refund may be

matched up with a posted payment. In that case, the cash refund is posted as a repaid amount based on the tier structure of that payment. If the payment was broken down between net taxable and nontaxable NSSEB/tier 2 paid amounts, then the NSSEB/tier 2 repaid amounts are also broken down between the same net taxable and nontaxable amounts.

- If the amount of the cash refund cannot be matched with a payment through accessing the TAX screens, the examiners request the folders for the overpayment information so that the correct posting of net taxable and nontaxable repaid amounts can be performed.

### **135.15.20 NSSEB/Tier 2 Repaid Under 1986 General Rule**

NSSEB/tier 2 repaid amounts consist of the taxable NSSEB/tier 2 amounts repaid, returned, or recovered for annuitants covered under the General Rule. The payments must also have been issued prior to death. For tax purposes, credit for repayment is not given for the nontaxable portion of the payment.

Since a portion of NSSEB/tier 2 payments is taxable right away from the ABD/OBD with a permanent nontaxable portion for 1986 General Rule annuitants, and contribution recovery is not a factor in determining taxable/nontaxable payments, any NSSEB/tier 2 payment repaid, returned, or recovered is credited, generally, in the amount that it was taxable.

Only repayments that are attributable to a specific tax year can be credited to that tax year (the year in which the overpayment was incurred or in which a returned payment was issued). Repayments made in any tax year may reduce that tax year's tax liability only to the extent that the current year's payments were "overpaid." Unlike SSEB, the net taxable amount for any year cannot be less than zero, regardless of the amount of repayment. The annuitant may need to amend a prior year income tax return to take into account a "credit" for a repayment attributable to an overpayment in a prior tax year. If the total NSSEB/tier 2 repayment in that year exceeds \$3,000, a "claim of right" may be exercised by the taxpayer (see IRS Publication 575 for details).

For the annuitant to determine what credit to take for the repaid amount, he should contact the Railroad Retirement Board to find out what years were involved in the overpayment.

Returned payments that were issued in the same tax year in which they were returned are not considered repaid, but are subtracted from the paid for that tax year.

### **135.15.25 NSSEB/Tier 2 Repaid Under 1987 General Rule**

- 1987 General Rule recovered - NSSEB/tier 2 repaid amounts consist of the taxable NSSEB/tier 2 amounts repaid, returned, or recovered for annuitants

covered under the General Rule. The payments must also have been issued prior to death. For tax purposes, credit for repayment is not given for the nontaxable portion of the payment.

Since the entire NSSEB/tier 2 becomes taxable after the employee contributions have been recovered for 1987 General Rule annuitants, any NSSEB/tier 2 repayment attributed to a period after contributions have been recovered is fully creditable. No split between taxable and nontaxable repaid needs to be computed.

- 1987 General Rule not recovered - NSSEB/tier 2 repaid amounts consist of the taxable NSSEB/tier 2 amounts repaid, returned, or recovered for annuitants covered under the General Rule. The payments must also have been issued prior to death. For tax purposes, credit for repayment is not given for the nontaxable portion of the payment.

Since a portion of NSSEB/tier 2 payments is taxable right away from the ABD/OBD, any NSSEB/tier 2 payment repaid, returned, or recovered is credited, generally, in the amount that it was taxable, if contributions have not been recovered.

All other discussion regarding the treatment of NSSEB/tier 2 repaid amounts are the same as explained under section 135.15.10.

### **135.15.30 Vested Dual Benefit Repaid**

December 1983 or later and issued prior to death. Repayment of a VDB payment is creditable for tax purposes if the original payment was reported as taxable when paid.

Repayments made in any tax year may reduce that tax year's tax liability only to the extent that the current year's payments were "overpaid." Unlike SSEB, the net taxable amount for any year cannot be less than zero, regardless of the amount of repayment. The annuitant may need to amend a prior income tax return to take into account a "credit" for a repayment attributable to an overpayment in a prior tax year.

For the annuitant to determine what credit to take for the repaid amount, he should contact the Railroad Retirement Board to find out what years were involved in the overpayment.

Returned payments that were issued in the same tax year in which they were returned will not be considered repaid, but will be subtracted from the paid for that tax year.

### **135.15.35 Supplemental Annuity Repaid**

Supplemental annuity (SUP ANN) repaid amounts consist of SUP ANN amounts repaid, returned, or recovered for the period November 1966 and later and issued prior to death. Since supplemental annuities have been taxable since inception, all supplemental annuity repayments are creditable for tax purposes.

SUP ANN repayments are treated in the same way for tax purposes as VDB repayments explained in section 135.15.30.

### **135.20 Negative Paid Amounts**

Return or recovery of taxable and certain nontaxable payments to or by the RRB usually requires credit of either a repaid amount or a negative paid amount to the annuitant's record for tax accounting purposes. Repaid amounts are discussed under section 135.15. Negative paid amounts are discussed below.

#### **135.20.05 SSEB/OM Negative Paid**

An SSEB/OM negative paid amount is posted to TAS for return or recovery of any SSEB/OM payment issued for the period December 1983 or later and issued after death. Any negative paid amount is always posted to the account of the deceased, even if a cross-beneficiary recovery was involved. Any negative paid assessment is limited to benefits that were taxable when paid.

#### **135.20.10 NSSEB/Tier 2 Negative Paid**

An NSSEB/tier 2 negative paid amount is posted to TAS for:

- Return or recovery of any NSSEB/tier 2 payment issued for the period December 1983 or later and issued after death;
- Return or recovery of any NSSEB/tier 2 payment issued prior to death if employee contributions have not been recovered for Three-Year Rule cases, and including payments issued in a period or for a period prior to December 1983; and
- Return or recovery of any NSSEB/tier 2 payment issued after death, split between net taxable and nontaxable amounts for General Rule cases, either in accordance with the original payment's split or the current payment's split.

Any negative paid amount caused by issue after death is always posted to the account of the deceased, even if a cross-beneficiary recovery was involved. The negative paid amount for payments issued prior to death is always posted to the annuitant's account from whom recovery was affected.

### **135.20.15 Vested Dual Benefit Negative Pairs**

A vested dual benefit (VDB) negative paid amount is posted to TAS for return or recovery of any VDB payment issued for the period December 1983 or later and issued after death. Any negative paid amount is always posted to the account of the deceased, even if a cross-beneficiary recovery was involved. Any negative paid assessment is limited to benefits that were reported taxable when paid.

### **135.20.20 Supplemental Annuity Negative Pairs**

A supplemental annuity (SUP ANN) negative paid amount is posted to TAS for return or recovery of any SUP ANN payment issued after death. This includes payments issued from November 1966 and on, since the supplemental annuity has always been taxable. Any negative paid amount is always credited to the account of the deceased, even if a cross-beneficiary recovery was involved. Any negative paid assessment is limited to benefits that were reported taxable when paid.

### **SCAMP On Demand Default Referral Messages**

<b>MESSAGE NUMBER</b>	
0100	ANNUITANT'S DATE OF BIRTH NOT VALID FOR SSEB SCAMP PROCESSING.
0101	ANNUITY/ORIGINAL BEGINNING DATE NOT VALID FOR SSEB SCAMP PROCESSING.
0102	ANNUITANT'S TYPE OF ANNUITY CODE NOT VALID FOR SSEB SCAMP PROCESSING.
0103	BENEFICIARY SYMBOL NOT VALID FOR SSEB SCAMP PROCESSING.
0104	DISABILITY FREEZE/ONSET DATE NOT VALID FOR SSEB SCAMP PROCESSING.
0105	TIER 1 BEGINNING DATE NOT VALID FOR SSEB SCAMP PROCESSING.
0106	EMPLOYEE'S DATE OF BIRTH NOT VALID FOR SSEB SCAMP PROCESSING.



0107	RATE EFFECTIVE DATE NOT VALID FOR SSEB SCAMP PROCESSING.
0108	ACCOUNTING/VOUCHER DATE NOT VALID FOR SSEB SCAMP PROCESSING.
0109	TYPE OF COMPUTATION CODE NOT VALID FOR SSEB SCAMP PROCESSING.
0110	ANNUITY FORMULA CODE NOT VALID FOR SSEB SCAMP PROCESSING.
0111	INSURED STATUS CODE NOT VALID FOR SSEB SCAMP PROCESSING.
0112	EMPLOYEE'S TYPE OF ANNUITY NOT VALID FOR SSEB SCAMP PROCESSING.
0113	EMPLOYEE'S TYPE OF COMPUTATION NOT VALID FOR SSEB SCAMP PROCESSING.
0114	NET TIER 1 OR OM RATE NOT VALID FOR SSEB SCAMP PROCESSING.
0115	SSEB PIA NOT VALID FOR SSEB SCAMP PROCESSING.
0116	SOCIAL SECURITY BENEFIT AMOUNT NOT VALID FOR SSEB SCAMP PROCESSING.
0117	WORKER'S COMPENSATION REDUCTION AMOUNT NOT VALID FOR SSEB SCAMP PROCESSING.
0118	PUBLIC DISABILITY BENEFIT REDUCTION AMOUNT NOT VALID FOR SSEB SCAMP PROCESSING.
0119	DELAYED RETIREMENT CREDIT MONTHS NOT VALID FOR SSEB SCAMP PROCESSING.
0120	PUBLIC SERVICE PENSION AMOUNT NOT VALID FOR SSEB SCAMP PROCESSING.
0121	ANNUITANT'S OWN EMPLOYEE ANNUITY REDUCTION AMOUNT NOT VALID FOR SSEB SCAMP PROCESSING.
0122	STATUTORY SHARE/REDUCTION MAXIMUM RATE NOT VALID FOR SSEB SCAMP PROCESSING.

0123	SOLE SURVIVOR MINIMUM GUARANTY AMOUNT NOT VALID FOR SSEB SCAMP PROCESSING.
0124	RIB LIMIT/82 1/2% AMOUNT NOT VALID FOR SSEB SCAMP PROCESSING.
0125	DISABILITY FREEZE TERMINATION DATE NOT VALID FOR SSEB SCAMP PROCESSING.
0126	RETIREMENT/SURVIVOR INDICATOR NOT VALID FOR SSEB SCAMP PROCESSING.
0127	PIA INDICATOR INVALID FOR SSEB SCAMP PROCESSING.
0128	OM FORMULA BEING PAID; EE LESS THAN 62, NO DF, DATA NOT CONSISTENT FOR SCAMP PROCESSING.
0129	ATTAINMENT CASE BYPASSED (USED BY MECHANICAL SYSTEM ONLY - NOT USED BY SCAMP-ON-DEMAND).
0130	EE/SP INDICATOR INVALID FOR RETIREMENT PROCESSING.

I-100	TAX COMPUTATIONS	I-100
EXHIBIT 6	G-310	EXHIBIT 6
I-100	TAX COMPUTATIONS	I-100
EXHIBIT 6	G-310	EXHIBIT 6
I-100	TAX COMPUTATIONS	I-100
EXHIBIT 7	RL-515	EXHIBIT 7
I-100	TAX COMPUTATIONS	I-100
EXHIBIT 8	G-1009	EXHIBIT 8

### SUMMARY

The following table summarizes the EEC calculation. The compensation amounts shown are the maximum amounts. All the dollar amounts entered are for demonstration purposes only. The percentages will be used for every employee.



Beginning with payments made in 1984, regular railroad retirement annuities became taxable income for federal income tax purposes. At that time the Railroad Retirement Board (RRB) was required to apply tax withholding rules under the Internal Revenue Code to all taxable railroad retirement payments.

Although supplemental annuities (SUP ANN) have been taxable since 1966, the RRB did not withhold federal income tax from the SUP ANN prior to 1984. Since 1984, the RRB has been required to apply tax withholding rules to all taxable railroad retirement payments, including the SUP ANN.

To apply tax withholding rules, it must first be determined whether a payment is being made to a U.S. citizen or resident (or someone who is treated as one for federal income tax purposes) or to a nonresident alien (NRA). Taxes are withheld differently depending on whether citizen or NRA tax withholding rules apply.

This article explains both types of tax withholding rules and the calculations involved

The RRB is required to calculate tax withholding on the taxable components of the annuity. For Federal income tax purposes, the following components are considered taxable income:

- eighty-five percent of the net social security equivalent benefit (SSEB) portion of tier 1 or special guaranty (O/M) payment in NRA cases only;
- the taxable non-social security equivalent benefit (NSSEB) portion of tier 1;
- the taxable tier 2;
- the vested dual benefit (VDB); and
- the supplemental annuity.

These payments are subject to tax withholding as part of a recurring monthly payment, as part of an accrual to a living annuitant, or as part of annuities due but unpaid at death.

Withholding is applied based on when the payment is made and the amount actually paid. The effective date of the payment is immaterial, except when a SSEB, O/M, NSSEB, tier 2, or VDB payment is for the period prior to 1984. These payments are not taxable.

The tax withholding amount is computed separately for the recurring payment and any accrued payment due.

The Internal Revenue Service (IRS) has ruled that the residual lump sum (RLS) is not taxable until the employee contributions have been recovered. However, since the RLS represents a refund of the railroad retirement taxes withheld from the employee's pay prior to 1975 less any benefits already paid on the employee's account, it should never be taxable. The lump sum death payment (LSDP) is a nontaxable payment.

## 205 Citizen Tax Withholding Rules

### 205.05 Citizen Tax Withholding Rules

Tax laws require the RRB to withhold benefits for income tax purposes unless the beneficiary has elected no tax withholding. In certain instances, the RRB is required to withhold taxes in the absence of an election. U.S. citizens and legal residents have the right to request the RRB not to withhold taxes.

"Citizen Rules" applies to a known citizen or bona fide resident of the United States, Guam, or the Commonwealth of the Northern Mariana Islands, or a known citizen of Puerto Rico or American Samoa, or an unknown individual physically residing in the United States or Guam.

When citizen tax withholding rules apply, a beneficiary may decline tax withholding, or control the amount of taxes withheld, by filing Form RRB W-4P, Withholding Certificate for Railroad Retirement Payments. If a beneficiary does not file an RRB W-4P, tax withholding is based on a mandatory rate prescribed by the Internal Revenue Code.

Form RRB W-4P is used by citizens and legal residents to elect tax withholding. The RRB will also accept IRS Forms W-4, W-4P, or W-4V.

Beginning 1-1-97, U.S. citizens may request SSEB tax withholding by filing IRS Form W-4V, Voluntary Withholding Request, with the RRB. Form W-4V is required before taxes can be deducted from the SSEB portion of tier 1. Annuitants may currently request one of four tax withholding percentages - 7%, 10%, 15%, or 25%. These withholding percentages were effective August 2003.

In U.S. citizen and legal resident cases the non-SSEB taxable components are comprised of:

- the VDB from 12-83 and later,
- the supplemental annuity from 1966 and later, and
- the taxable NSSEB portion of tier 1 and tier 2 once the employee's contributions have been recovered in Three Year Rule cases, or the taxable NSSEB portion of tier 1 and tier 2 in General Rule cases.

### 205.05.05 Citizen

Citizen rules apply to a known citizen or bona fide resident of the United States, Guam, or the Commonwealth of the Northern Mariana Islands, or a known citizen of Puerto Rico or American Samoa, or an unknown individual physically residing in the United States or Guam. If this is not the case, nonresident alien rules apply.

Citizen rules always take precedence when a beneficiary has dual citizenship.

If a beneficiary claims to have renounced citizenship, or has no citizenship, citizen rules still apply if he or she is a legal resident of the United States, Guam, or the Commonwealth of the Northern Mariana Islands.

### 205.05.10 Nonresident Citizen

A nonresident citizen, including one with dual citizenship status, may be affected under a tax treaty in effect between the United States and the beneficiary's country of legal residence.

Effective January 1, 1988, a nonresident citizen may not decline tax withholding from either a recurring monthly benefit or accrual payments. If no tax withholding is requested using Form RRB W-4P, the mandatory citizen tax withholding will be applied.

### 205.10 Citizen Tax Withholding Calculation

If citizen withholding has been elected, the marital status and number of allowances claimed or assumed will be used to calculate the tax withholding amount. Effective for payments made in 1987 or later, where no RRB W-4P has been filed and the taxable NSSEB/tier 2/VDB/SUPP is equal to or greater than the minimum mandatory tax withholding amount, mandatory tax withholding applies. Effective January 1988, this also applies to a nonresident citizen if he/she has requested that no tax withholding be applied (see section 205.05.10).

The minimum mandatory tax withholding amounts for each year are:

<b>Tax Year</b>	<b>Minimum Mandatory Tax Withholding Amount</b>
Prior to 1984	N/A
1984	N/A for citizens
1985	472.18
1986	491.17

1987	634.54
1988	744.84
1989	770.35
1990	798.83
1991	836.85
Effective January 1992	886.35
Effective March 1992	1078.35
1993	1107.83
1994	1144.85
1995	1161.33
1996	1175.84
1997	1203.83
1998	1216.34
1999	1228.85
2000	1241.33
2001	1266.35
2002	1293.00
2003	1305.51
Effective July 2003	1446.99
2004	1446.99
2005	1472.01
2006	1497.00
2007	1521.99
2008	1547.01
2009	1584.51
Effective April 2009	2230.51
2010	2063.51
Effective February 2011	1587.99
2012	1630.01
Effective February 2013	1672.00

### **205.10.05 Form RRB W-4P, Withholding Certificate for Railroad Retirement Payments**

To have taxes withheld on the pension portions (NSSEB portion of tier 1, tier 2, VDB and supplemental annuity) of the annuity, an applicant/annuitant or his or her representative payee, must file a tax withholding election using Form RRB W-4P, *Withholding Certificate For Railroad Retirement Payments*.

An annuitant/applicant or his or her representative payee must file a Form RRB W-4P to request:

- no Federal taxes be withheld,
- taxes be withheld based on the claimed marital status and number of allowances,

- an additional dollar amount be withheld each month, or
- to change or cancel existing tax withholding.

See Form RRB W-4P (05-07).

The RRB W-4P ON-LINE system is used to enter tax withholding election information. The system can calculate the amount of taxes that will be withheld based on the information the user enters.

The information from items 1, 3 and 6 through 11 of the form is updated to TAS. See section 3110 for instructions on how to enter W-4P information.

Only an election form (RRB W-4P, IRS Forms W-4V/W-4P) may be used by railroad retirement beneficiaries to decline or change citizen tax withholding. If a different form or a written statement is submitted, advise the annuitant/applicant or his or her representative payee to file a Form RRB W-4P or the appropriate IRS form to effect a withholding election.

Applicants/annuitants or representative payees are required to complete and sign Form RRB W-4P.

The IRS does not allow forms completed by applicants/annuitants or representative payees to be modified by anyone handling those forms after completion. If an item is omitted on a returned form, RRB personnel MAY NOT complete the item for the applicant/annuitant or representative payee, no matter what the circumstances. **Form RRB W-4P is a substitute IRS Federal income tax form subject to IRS rules.**

You may circle or highlight item numbers individuals need to complete on Forms RRB W-4P. Do **not**, however, highlight the actual response areas, as doing so may obscure the responses once the forms are imaged.

Citizens and residents may file an RRB W-4P at any time. However, the form is not valid if filed more than six months before tax withholding could apply to regular annuity payments.

Form TXB-25 should be given to the applicant or annuitant prior to completion of the RRB W-4P, as it provides information to aid the annuitant or applicant in completing the form. This form includes a worksheet that may be used to determine the number of withholding allowances to which an individual may be entitled.

### **205.10.10 IRS Form W-4V, Voluntary Withholding Request**

Beginning 1-1-97, annuitants who are U.S. citizens may file IRS Form W-4V at the RRB if they want taxes withheld from the SSEB portion of tier 1. Prior to August 2001, beneficiaries could request one of 4 percentages of withholding:



7%, 15%, 28%, or 31%. Effective August 2001, the percentages were changed to 7%, 10%, 15% and 27%. Effective August 2003, the percentages were changed to 7%, 10%, 15% and 25%.

A new Form W-4V is needed to cancel SSEB tax withholding.

Form W-4V is processed by the Tax, Clerical, and Imaging Section-Tax Section (TCIS-TS). Information from items 6 and 7 of Form W-4V is updated to TAS Screen PF-18. Please note that annuitants can file both the RRB W-4P and IRS W-4V.

### **205.10.15 Mandatory Citizen Tax Withholding**

The RRB is required to initiate tax withholding from the taxable components of annuity payments to U.S. citizens and legal residents. Unless a citizen or legal resident takes action requesting no tax withholding, the RRB is required by law to withhold a portion of the annuity on a monthly basis if the taxable components exceed a certain level. For example, the mandatory tax withholding level for tax year 2007 is \$1521.99 per month.

The mandatory rate is based on an assumed marital status of married, filing jointly, with 3 withholding allowances.

### **205.10.20 Tax Tables**

Citizen tax withholding is calculated using the W-4P On-Line System.

See TOM 3110.05 for further instructions on how to use the W-4P On-Line System.

Taxes are calculated for the total positive accrual before any recovery is made. Therefore, the total taxes to be withheld may exceed the net amount due after all deductions. The tax withholding amount is reduced following the \$95.00 or \$10.00 rules as they apply. See section 205.10.25.

### **205.10.25 Limiting Tax Withholding Amounts**

Prior to 1-1-97, if the total of the table tax withholding amount and any additional amount exceeded the total of the taxable pension components (NSSEB/tier 2/VDB/SUPP), the tax withholding amount was NOT reduced to equal the taxable pension amount. Instead, the excess taxes were merely withheld from the SSEB amount. If the SSEB/NSSEB split was known, taxes were attributed first to the NSSEB, and next to the SSEB.

Effective 1-1-97, the RRB can no longer deduct excess pension taxes from the SSEB. The IRS advised us that SSEB taxes are voluntary, and can be withheld only when a beneficiary files IRS Form W-4V.

If the rounded tax withholding amount would reduce the total annuity payment (SSEB or O/M, NSSEB, tier 2, VDB, SUPP) to less than a certain amount, the rounded tax withholding amount will be reduced so a minimum payment may be made. Reduce the rounded tax withholding amount as required by the \$120.00 or \$10.00 Rule.

**\$120.00 Rule: Beneficiary Not Enrolled For Supplementary Medical Insurance**

If the total annuity payment would be reduced to less than \$120.00 after taxes are withheld, reduce the rounded tax withholding amount by whole dollars until at least \$120.00 may be paid or until the tax withholding amount is zero. This rule applies only to the recurring rate. Prior to 11-1-1987 it also applied to accruals. The \$120.00 Rule has previously been called the \$95.00 Rule, the \$75.00 Rule, the \$50.00 Rule and the \$25.00 Rule. See the examples below:

Example 1: Annuitant is not enrolled for SMI and taxes of \$150.00 are computed.

<b>Computation without the \$120.00 Rule</b>	
Annuity Rate before Taxes	\$259.88
Taxes Computed	\$150.00
Annuity Rate after Taxes	\$ 109.88
<b>Computation with the \$120.00 Rule</b>	
The taxes and annuity rate are adjusted as follows:	
Annuity Rate before Taxes	\$259.88
Reduced Taxes	\$139.00
New Annuity Rate after Taxes	\$120.88

Example 2: Annuitant is not enrolled for SMI and taxes of \$5.00 are computed.

<b>Computation without the \$120.00 Rule</b>	
Annuity Rate before Taxes	\$88.50
Taxes Computed	\$ 5.00
Annuity Rate after Taxes	\$83.50
<b>Computation with the \$95.00 Rule</b>	
The taxes and annuity rate are adjusted as follows:	

Annuity Rate before Taxes	\$88.50
Reduced Taxes	\$00.00
New Annuity Rate after Taxes	\$88.50

### **\$10.00 Rule: Beneficiary Enrolled for Supplementary Medical Insurance**

If the total annuity payment is less than \$10.00 after deduction for supplementary medical insurance premiums and taxes, reduce the rounded tax withholding amount by whole dollars until at least \$10.00 may be paid after deduction for supplementary medical insurance premiums and taxes, or until the tax withholding amount equals zero. Effective 11-1-87, this rule is applied only to the recurring rate. Prior to 11-1-87, this rule also applied to accruals. See the following examples:

Example 1: Annuitant is enrolled for SMI and taxes of \$30.00 are computed.

<b>Computation without the \$10.00 Rule</b>	
Annuity Rate before Deductions	\$126.58
SMI Premium	\$ 88.50
Rate After SMI	\$ 38.08
Taxes Computed	\$ 30.00
Annuity Rate after SMI and Taxes	\$ 8.08
<b>Computation with the \$10.00 Rule</b>	
The taxes and annuity rate are adjusted as follows:	
Annuity Rate before Deductions	\$126.58
SMI Premium	\$ 88.50
Rate After SMI	\$ 38.08
Reduced Taxes	\$ 28.00
New Annuity Rate after SMI and Taxes	\$ 10.08

Example 2: Annuitant is enrolled for SMI and taxes of \$150.00 are requested.

<b>Computation without the \$10.00 Rule</b>	
Annuity Rate before Deductions	\$218.50
SMI Premium	\$ 88.50
Rate After SMI	\$130.00
Taxes Computed	\$130.00
Annuity Rate after SMI and Taxes	\$ -0-

<b>Computation with the \$10.00 Rule</b>	
The taxes and annuity rate are adjusted as follows:	
Annuity Rate before Deductions	\$218.50
SMI Premium	\$ 88.50
Rate After SMI	\$130.00
Reduced Taxes	\$120.00
New Annuity Rate after SMI and Taxes	\$ 10.50

## 210 Nonresident Alien Tax Withholding Rules

### 210.05 General

For United States income tax purposes, the United States is defined as the 50 States and the District of Columbia. A **known** individual is someone who has claimed citizenship and residence for income tax purposes. An **unknown** individual is someone who has not claimed citizenship and residence for income tax purposes.

An individual is taxed under nonresident alien rules if he or she is:

- A individual who is a **known citizen** of a country **other than** the United States, Guam, or the Commonwealth of the Northern Mariana Islands, Puerto Rico, or American Samoa **and who is a known resident** for tax purposes of a country **other than** the United States, Guam, or the Commonwealth of the Northern Mariana Islands, or
- An **unknown** individual residing **outside** the United States, Guam, and the Commonwealth of the Northern Mariana Islands.

A beneficiary taxed under nonresident alien (NRA) rules may not decline tax withholding or control the amount of taxes being withheld in the same manner as a beneficiary taxed under U.S. citizen rules. Nonresident alien beneficiaries are subject to a 30% tax withholding rate mandated by the Internal Revenue Code, unless they are eligible for reduced tax withholding under an income tax treaty between their country of legal residence for tax purposes and the United States. A claim for reduced tax withholding under an income tax treaty is called a tax treaty exemption claim.

A nonresident annuitant or beneficiary may file Form RRB-1001, *Nonresident Questionnaire*, to furnish citizenship, residence for tax purposes, and tax treaty exemption claim information to the RRB. A nonresident alien may file Form RRB-1001 Buff to renew tax treaty exemption claims.

Two Internal Revenue Service (IRS) publications that provide general information about NRAs are Publication 515, *Withholding Tax on Nonresident Aliens and Foreign Entities* and Publication 519, *U.S. Tax Guide for Aliens*. These publications may be helpful when discussing Federal income tax issues with NRA annuitants.

When discussing Federal income tax issues with annuitants, be careful to only provide general information. Do not advise annuitants on what to do, as we are prohibited from giving tax advice. Annuitants requesting tax advice should be referred to the IRS.

### **210.10 Mandatory Nonresident Alien Tax Withholding**

If Form RRB-1001, *Nonresident Questionnaire*, has not been filed, and if the beneficiary is assumed to be a nonresident alien because of his or her mailing address, tax withholding is based on a rate mandated by the Internal Revenue Code. The mandatory rate is 30 percent of 85 percent of the SSEB portion of tier 1 or O/M payments, and 30 percent of the NSSEB portion of tier 1, tier 2, the vested dual benefit, and the supplemental annuity.

When the mandatory rate is applied to an assumed NRA, it remains in effect until a Form RRB-1001 is filed and citizenship and residence information, including any necessary proof of residence, and any applicable tax treaty exemption claim information, is furnished. This is true even if an assumed NRA changes his or her mailing address to the United States, Guam, or the Northern Mariana Islands.

The mandatory rate will be applied to a known NRA who changes his or her mailing address from one country to another and does not file a new Form RRB-1001. This is true whether or not that known NRA was previously taxed at a non-tax treaty rate of 30 percent or at a reduced rate under a tax treaty.

### **210.15 Reduced Nonresident Alien Tax Withholding Under Income Tax Treaties**

The United States has signed income tax treaties with a number of countries that provide for reduced tax withholding of Railroad Retirement Act annuity payments for eligible individuals who claim exemption under the treaties. An eligible individual is someone who is:

1. A nonresident alien of the United States, and
2. A resident, for tax purposes, of a tax treaty country, and
3. Has submitted a properly completed Form RRB-1001, *Nonresident Questionnaire*, containing all of the following:
  - a. A valid signature, and

- b. Claimed residence for tax purposes in a tax treaty country, and
- c. Proof of residence for tax purposes, if required, in that tax treaty country, and
- d. The individual's United States taxpayer identifying number, and
- e. A tax treaty exemption claim.

The Internal Revenue Code requires an individual's United States Taxpayer Identification Number (TIN) be included on a tax treaty exemption claim form. It is not acceptable to submit a Form RRB-1001 without a U.S. TIN, and simply send the TIN to the RRB on follow-up correspondence or rely on a TIN already in the Taxation Accounting System (TAS). A tax treaty exemption claim is not valid under those circumstances.

If an individual needs to apply for a United States TIN in order to qualify for a tax treaty exemption, the individual should hold onto Form RRB-1001 until the TIN is secured. Once the number is secured, the individual should enter the U.S. TIN in item B of Form RRB-1001, complete all other required entries as described on Form TB-26, Completion Instructions for Form RRB-1001, *Nonresident Questionnaire*, and submit the completed Form RRB-1001 to the appropriate RRB office.

Nonresident alien (NRA) income tax is typically withheld at a 30 percent rate. NRA income tax reduced under an income tax treaty is withheld at 0 percent or 15 percent rates.

A list of tax treaty countries and applicable tax withholding percentages can be found in the PAS document titled "NRA Table Report".

**Tax treaty exemption claims affect future payments only.** These claims are not retroactive. Unless there is a change in circumstance, these claims are valid through December 31 of the third year following RRB receipt of a properly completed tax treaty exemption claim form. For example, with no change in circumstance, a form received on October 15, 2011, will be valid through December 31, 2014.

A change in circumstance for tax purposes is an event, such as a change in country of residence that would cause a tax treaty exemption claim to expire before December 31 of the third year following receipt of the tax treaty exemption claim form.

Forms RRB-1001 should not be developed or processed simply to extend future tax treaty exemption expiration dates.

- Do not provide Forms RRB-1001 to annuitants whose records indicate they are currently entitled to and receiving reduced tax withholding under income tax treaties.
- Do not process Forms RRB-1001 received from annuitants whose records indicate they are currently entitled to and receiving reduced tax withholding under income tax treaties.

Advise these annuitants in writing that reduced tax withholding currently applies, and provide the date their tax treaty exemption claim is due to expire. Advise that we will not send/process a Form RRB-1001, *Nonresident Questionnaire*, package at this time. We will instead send them a renewal package at the appropriate time.

**Exception:** If an annuitant's tax treaty exemption claim is due to expire at the end of the current tax year or the next tax year, and if the annuitant indicates he or she will be unavailable at the time a renewal package would be sent, go ahead and send a Form RRB-1001 package now. The individual may know that he or she will be out of the country or otherwise unable to send the response when the regular renewal package is due to be sent.

**Note:** If an annuitant currently receiving reduced tax withholding under an income tax treaty indicates he or she is permanently moving to another country and requests a Form RRB-1001, provide a Form RRB-1001 package. A new Form RRB-1001 is always required when a NRA's country of residence changes. See Item 3 of TOM 210.45, *When to Release Forms RRB-1001 White to Applicants and Annuitants*.

### **210.20 How Nonresident Alien Tax Withholding is Calculated**

NRA tax withholding is calculated using a 30 percent IRS mandatory percentage rate, unless the beneficiary has claimed exemption under a tax treaty in effect between his or her country of legal residence for tax purposes and the United States. Reduced tax withholding under an income tax treaty is applicable at either 0 percent or 15 percent.

Taxes are calculated separately for each recurring and nonrecurring annuity component according to the applicable percentage rates. The applicable percentage rate is multiplied times any positive regular annuity component amount. The result is rounded to the nearest dollar. All regular annuity dollar rounded tax withholding amounts are added together. The total is then subtracted from the regular annuity payment.

For recurring payments, if the dollar rounded tax withholding amount reduces the total regular annuity payment to less than a certain minimum amount, the recurring rate will be adjusted. The minimum amount is \$125.00 if there is no monthly SMIB deduction or \$10.00 if there is a monthly SMIB deduction. The

rounded tax withholding amount will be reduced so a \$125.00 or \$10.00 minimum recurring annuity payment may be made.

Supplemental annuity tax withholding is handled separately, but in the same general manner as regular annuity component tax withholding. The applicable percentage rate is multiplied times the supplemental annuity after other deductions have been applied, and the result is rounded to the nearest dollar.

### **210.25 Form RRB-1001 White, Nonresident Questionnaire**

Form RRB-1001 White, *Nonresident Questionnaire*, is used to secure country of citizenship, country residence for tax purposes, and tax treaty claim information for nonresident applicants and annuitants. This information is needed to determine if a nonresident annuitant should be taxed under U.S. citizen tax rules or under nonresident alien (NRA) tax rules. For those taxed under NRA tax rules, the information determines if and how tax withholding does or does not apply to annuity payments.

### **210.30 Form RRB-1001 Buff, Nonresident Questionnaire**

Form RRB-1001 Buff, *Nonresident Questionnaire*, is used to secure tax treaty exemption claim renewals. Tax treaty exemption claims provide qualifying individuals with reduced income tax withholding based on tax treaties between the United States and the individuals' countries of residence for tax purposes. Forms RRB-1001 Buff are automated letters generated by the annual run of the Nonresident Alien Monitoring program.

### **210.35 When Citizenship Only Information is Received on Regular Correspondence**

Acceptable citizenship information may be received via ordinary correspondence. If the annuitant or his or her RRB approved representative payee has signed and dated such a statement, and if no pre-existing conflict regarding the individual's claim of citizenship exists, the statement of citizenship should be accepted for RRA taxation purposes.

In that instance, receipt stamp and Image the citizenship information and send a request to the Tax, Clerical and Imaging Section–Tax Section (TCIS-TS) to enter the citizenship only information. See TOM 210.75.50, Forms RRB-1001 White and RRB-1001 Buff and Related Information That Must be Handled by the Tax Clerical and Imaging Section–Tax Section for more information. Send the annuitant/representative payee a Form RRB-1001 package. See TOM 210.70 for information about Form RRB-1001 packages. Advise on RRAILS Form TXL-26 that we will process the claim of United States citizenship, but the individual should complete and return Form RRB-1001 to provide all needed information for our records.



### **210.40 Separate Forms RRB-1001 are Needed for Some Separate Annuity or Beneficiary Entitlements**

A Form RRB-1001 should be secured for **each separate annuity or benefit entitlement, excluding entitlements that will convert in the future**. This means it is necessary to secure more than one Form RRB-1001 from some individuals. For example, two Forms RRB-1001 should be secured when a surviving divorced widow is also or becomes entitled to a legal process partition payment.

Only one Form RRB-1001 should be secured when one annuity entitlement will convert or has converted to another annuity entitlement. For example, one Form RRB-1001 should be secured from a spouse. A new Form RRB-1001 is not needed when the spouse becomes a widow.

### **210.45 When to Release Forms RRB-1001 White to Applicants and Annuitants**

Form RRB-1001, *Nonresident Questionnaire*, is primarily released to individuals from three different sources – Tax, Clerical, and Imaging Section – Tax Section (TCIS-TS), field offices, and from headquarters as part of our annual tax treaty exemption monitoring process. A Form RRB-1001 should be released as follows:

1. **In advance of** an individual living outside the 50 United States and Washington, D.C. filing an application for an annuity, including an annuity due but unpaid at death. If a TAS record does not exist, processing Form RRB-1001 will create one.
2. In response to an annuitant wishing to establish citizenship or residence for tax purposes or a tax treaty exemption claim on our records.
3. In response to a nonresident alien permanently changing his or her country of residence. Do not secure a new form in response to a temporary change in country of residence. See Note 4 below.
4. In response to an annuitant questioning the accuracy of mandatory nonresident alien tax withholding being applied to annuity payments. Release a form only if reduced tax withholding might be applicable under an income tax treaty between the United States and the annuitant's country of legal residence for tax purposes.
5. When securing a new application after a period of termination and a tax treaty exemption claim associated with the terminated entitlement is about to expire. Check first to determine if a Form RRB-1001 Buff was recently released as part of the latest annual Nonresident Alien Tax Treaty Exemption Monitoring Program operation. See TOM 210.55, Report Listings of

Annuitants Who Receive NRA Monitoring Program Renewal Packages. While a new Form RRB-1001 would not normally be needed if the individual is converting from one entitlement to another (see TOM 210.40 above), a new one is needed if the existing form is about to expire and the individual did not receive a renewal package.

6. If United States citizenship has not been established (see NOTE 1: below), in response to (**preferably in advance of**) a change of address **within** one of the 50 United States, the District of Columbia, Guam, or the Commonwealth of the Northern Mariana Islands to an address **outside** the 50 United States, the District of Columbia, Guam, or the Commonwealth of the Northern Mariana Islands.
7. If United States citizenship has not been established (see NOTE 1: below), in response to (**preferably in advance of**) a change of address from a country **outside** the 50 United States, the District of Columbia, Guam, or the Commonwealth of the Northern Mariana Islands to a **different** country **outside** the 50 United States, the District of Columbia, Guam, or the Commonwealth of the Northern Mariana Islands.

**Note 1:** United States citizenship has been established in the TAS if the “Tax Citizenship Status Cd” item in the upper left corner of the Citizenship and Residency Information General Tax Screen (PF7) contains “1 US”. It has not been established if this item does not contain “1 US”.

**Note 2:** For Federal income tax purposes, the United States is defined as the 50 states and the District of Columbia (Washington, D.C.). It **does not** include any possessions or territories of the United States, such as Guam, the Commonwealth of the Northern Mariana Islands, American Samoa, Puerto Rico, or the U.S. Virgin Islands.

**Note 3:** A change of address from a country **outside** the 50 United States, the District of Columbia, Guam, or the Commonwealth of the Northern Mariana Islands to an address **within** one of the 50 United States or the District of Columbia **will not** change the established tax rule (U.S. citizen or NRA) or cause a change in tax withholding.

**Note 4:** A temporary change of address, often a seasonal change, does not warrant release of Form RRB-1001. Any permanent tax status information should remain on our records. If permanent tax status information is not on our records, a temporary change of address may trigger a change in tax status. In that instance, secure a Form RRB-1001 to secure and establish permanent tax status information for our records.

### **210.50 Annual NRA Monitoring Program Release of Forms RRB-1001 Buff to Annuitants**

The RRB issues tax treaty exemption claim renewal packages to eligible individuals approximately three months prior to the date their tax treaty exemptions are due to expire. These packages contain cover letter Form TXL-125, generated by the annual Nonresident Alien Monitoring Program. Form TXL-125 contains a Form RRB-1001 Buff at the bottom of the form. The packages also contain Form TB-125, Form RRB-1001 Buff completion instructions and a return envelope. Forms RRB-1001 Buff are abbreviated Forms RRB-1001 and are printed on buff colored paper. Both Field office staff and Tax, Clerical and Imaging Section-Tax Section (TCIS-TS) staff process these forms.

If Forms RRB-1001 Buff are completed properly and processed before the cost of living mass adjustment in December, these individuals' tax treaty exemptions will be renewed until December 31 of the third year following receipt of the renewal exemption claim forms. Reduced tax withholding will continue with the monthly payment dated January of the year following receipt of the form. If properly completed forms are received late, they will be entered into TAS as soon as possible but tax treaty exemption claims will not be applied retroactively.

### **210.55 Report Listings of Annuitants Who Receive NRA Monitoring Program Renewal Packages**

Each year, the NRA Monitoring Program creates two report listings of annuitants to whom we issued tax treaty exemption renewal packages. These reports are available on Boardwalk.

Access the listings by opening "Applications" under "Boardwalk Resources" on the Boardwalk main page. Go to "Associated Links" in the right hand column and you will find "NRA Monitoring Report 4" and "NRA Monitoring Report 5."

Report 4 lists annuitants residing in Canada, Mexico, and any United States Possessions or Territories to whom we released renewal packages. Report 5 lists annuitants residing in any other countries to whom we released renewal packages. All annuitants are listed in ascending RR claim number order.

### **210.60 NRA Table Report**

A list of tax treaty countries and applicable tax withholding percentages used by the TAS can be found in the document titled "NRA Table Report".

### **210.65 Restrictions on Form RRB-1001 and Form RRB-1001 Buff Items RRB Personnel May Pre-Complete or Alter**

#### **1. Pre-Completion of Form RRB-1001 and Form RRB-1001 Buff Items**

RRB personnel may pre-complete most items on Form RRB-1001 or RRB-1001 Buff. There are two exceptions.

a. **RRB personnel MAY NOT pre-complete Item B, UNITED STATES TAXPAYER IDENTIFYING NUMBER, (U.S. TIN), for anyone other than an employee annuitant.**

Employee annuitant U.S. social security numbers (SSNs) on RRB records have been verified. Most U.S. TINs on RRB records have not been verified for auxiliary annuitants, auxiliary beneficiaries, estate and administrator of estate payees. By pre-completing the U.S. TIN item for these individuals, we are in many instances recycling the same incorrect numbers into TAS. Requiring the annuitants to complete the item has resulted in receipt of corrected numbers.

b. **RRB personnel MAY NOT pre-complete Item 5, Signature and Date.**

2. **Alteration of Form RRB-1001 and Form RRB-1001 Buff Items After Receipt from the Annuitant or Beneficiary**

**The Internal Revenue Service does not allow forms completed by applicants/annuitants to be modified by anyone handling those forms after annuitant completion.** If an item is omitted on a returned form, RRB personnel **MAY NOT** complete the item for the annuitant, no matter what the circumstances.

Image any incomplete forms. Use RRAILS Form TXL-26, *Transmittal Letter for Form RRB-1001, Nonresident Questionnaire*, to return incomplete forms to annuitants and beneficiaries. Form TXL-26 has variable language to identify what action is required of the annuitant or beneficiary.

Two receipt dates should be viewable on the front of forms returned to annuitants for completion. (1) The original date the incomplete form was received at an RRB office and (2) the date the returned form was received at an RRB office.

You may circle or highlight item numbers individuals need to complete on Forms RRB-1001 and RRB-1001 Buff. **Do not, however, highlight the actual response areas**, as doing so may obscure the responses once the forms are imaged.

### **210.70 Form RRB-1001 Packages**

Form RRB-1001 packages consist of the following materials:

1. Form TXL-26, *Transmittal Letter for Form RRB-1001, Nonresident Questionnaire*

If Form RRB-1001 is released in response to an inquiry or is being returned because of incomplete information, please state the reason for release.

2. Form RRB-1001, *Nonresident Questionnaire*
3. Form TB-26, *Completion Instructions for Form RRB-1001, Nonresident Questionnaire*
4. A RRB-1001 unfranked return envelope addressed to your office. If the annuitant sends you a form handled by the Tax, Clerical, and Imaging Section – Tax Section (TCIS-TS) or by another field office, please send the form to the originating office for handling. TCIS-TS initiated Forms should have TCIS or TCIS-TS notated under the address section on the bottom of Form RRB-1001 or Form RRB-1001 Buff.

Return envelopes addressed to TCIS-TS contain “RRB-1001” in the lower left corner and “TCIS” notated below the “RRB-1001”.

5. IRS Form W-7, *Application For IRS Individual Taxpayer Identification Number*

If a United States taxpayer identifying number is needed for a tax treaty exemption claim and the individual would not qualify to receive a social security number, include an IRS Form W-7, *Application For IRS Individual Taxpayer Identification Number*, in the Form RRB-1001 package (see <http://www.irs.gov/pub/irs-pdf/fw7.pdf>.) An individual who would not qualify to receive a social security number 1) is **not** a United States citizen, **AND** 2) has **not** been admitted to the United States for permanent residence or United States employment.

6. Instr Form W-7, *Completion Instructions for Form W-7, Application For IRS Individual Taxpayer Identification Number.*

Advise the annuitant to follow the mailing instructions for IRS Form W-7. The RRB does not process these forms. The individual should hold Form RRB-1001 White or RRB-1001 Buff until he or she receives an ITIN from the IRS. The ITIN should then be entered in item B of Form RRB-1001 or RRB-1001 Buff before the form is sent to the RRB.

If you are serving a Spanish speaking individual, you may wish to send both IRS Form W-7 and IRS Form W-7(SP), a Spanish language version of the W-7 (see <http://www.irs.gov/pub/irs-pdf/fw7sp.pdf> ).

## **210.75 Returned Forms RRB-1001 White and RRB-1001 Buff**

### **210.75.05 Returned Forms RRB-1001 White and RRB-1001 Buff – Receipt Date the Front of the Forms**

Date the Section 3 side – the side with the questions and answers - of Forms RRB-1001 and Forms RRB-1001 Buff with a stamp (preferably) or notation that identifies both the date the form was received and the office in which the form was received.

Forms RRB-1001 and Forms RRB-1001 Buff received in headquarters should contain two dates. The date the form was received in the mailroom and the date the form was received in TCIS-TS. If the mailroom date is on the back of the incoming envelope, TCIS-TS should handwrite the mailroom receipt date somewhere on the Section 3 side of the form.

### **210.75.10 Returned Forms RRB-1001 White and RRB-1001 Buff - Review Signatures**

Review the signature in item 5 to be sure it is acceptable.

#### **Unsigned Forms**

Unsigned forms may not be accepted. No information from an unsigned form may be entered in the TAS. Return unsigned forms to the sender. Opt for Form TXL-26 item that states “You did not sign the form in item 5”.

#### **Forms Signed By Annuitants**

Unless something on the form looks suspicious, accept the signature of the annuitant as valid. If something on the form looks suspicious, check the name and address in TAS or DATAQ or PREH to see if the annuitant has a representative payee. If yes, send a Form RRB-1001 package to the rep payee. If no, determine if a representative payee is needed.

#### **Forms Signed by Annuitants’ Representative Payees**

If the person who signed the form is the RRB recognized representative payee, accept the signature as valid.

#### **Annuitant Signatures by Mark**

Accept an otherwise properly completed Form RRB-1001 or Form RRB-1001 Buff signed by a mark so long as the following is true:

- a. The annuitant is competent, but physically impaired, and cannot sign Form RRB-1001, **and**

- b. The annuitant's name is printed on the Form RRB-1001 signature line, **and**
- c. The annuitant enters his or her mark on the Form RRB-1001 signature line to the right of his or her name, **and**
- d. There are two witnesses to the annuitant's signature by mark who know the annuitant and who also sign and date the Form RRB-1001, and who provide the RRB with their mailing addresses.

**or**

An RRB employee identified by field office, signs as a witness to the annuitant's signature by mark. If an RRB employee signs as a witness, no other witnesses are necessary.

Witnesses to a signature by mark should sign and date the signature side of the form. Their mailing addresses should be entered where there is room, even if that's on a separate piece of paper.

**NOTE:** A power of attorney can serve as a witness to a competent annuitant's signature by mark, but cannot sign for the annuitant.

### **Forms Signed by Someone Claiming Power of Attorney**

**a. Person Claiming Power of Attorney is the RRB Recognized Representative Payee**

Check the name and address in TAS. If the individual who signed the form is the RRB appointed representative payee, accept the signature as valid.

**b. There is a RRB Recognized Representative Payee, But the Person Claiming Power of Attorney is Not the Representative Payee**

If the individual who signed the RRB-1001 is not the RRB appointed representative payee, do not process the form. Write "Not Processed" and your initials and the date on the front of the RRB-1001. Be sure the earliest RRB office receipt date is also shown on the front. Send the RRB-1001 to be imaged.

Send the individual who signed the RRB-1001 a letter explaining that someone else is the RRB appointed representative payee and we are sending that individual a Form RRB-1001 package to complete for the annuitant. Send a copy of the letter to be imaged.

Release a RRB-1001 package to the RRB recognized representative payee. Send a copy of the RRB-1001 package transmittal letter to be imaged.

**c. There is No RRB Recognized Representative Payee**

Send the individual who signed the RRB-1001 a letter explaining that because he or she is not the RRB appointed representative payee, we are unable to process the RRB-1001. Send a copy of the letter to be imaged.

Check WorkDesk and the Contact Log to see if a representative payee assignment is pending or an application received but not yet processed.

**1) There is either a pending assignment or a pending application.**

Do not process the RRB-1001. Hold the material for 30 days and recheck the name and address block on TAS. Pend another 30 days as necessary. Once a representative payee is appointed, follow the instructions in item 5.a. above.

**2) There is neither a pending assignment nor a pending application.**

**a) Tax, Clerical, and Imaging Section – Tax Section (TCIS-TS) Action**

- 1)) Do not process Form RRB-1001. Image the form and any associated materials.
- 2)) Determine which field office services the annuitant's address.
  - If the annuitant's address is inside the United States determine the field office in the usual manner.
  - If the annuitant's address is in Canada, refer to RCM Section 10.3, Appendix B - Canadian Provinces & Territories by Field Offices.
  - If the annuitant's address is in Mexico, refer to RCM Section 10.3, Appendix C - Mexican States and Territories by Field Office.
  - If the annuitant's address is outside the United States, Canada, and Mexico, the Chicago District Office services the annuitant.



- 3)) Send the field office an e-mail assignment to develop for a representative payee. Advise that a Form RRB-1001 was received that could not be processed. Advise that the unprocessed Form RRB-1001 has been imaged and a new Form RRB-1001 will be required.

**b)) Field Office Action**

Do not process the Form RRB-1001.

Image Form RRB-1001, front and back, and all pertinent associated materials. If the initial receipt stamp was made on the receiving envelope rather than on Form RRB-1001, either image the envelope or transfer the receipt date to the front of Form RRB-1001, taking care not to obscure any **of the individual's responses**. Develop for a representative payee.

**Form Signed by Someone Other than the Annuitant, Not the RRB Recognized Representative Payee and Not Claiming Power of Attorney**

If the form is signed by someone other than the annuitant or the RRB recognized representative payee, and the signer does not claim to have power of attorney, check to see if there is a representative payee in TAS or DATAQ or on PREH. If there is no indication of a representative payee, check WorkDesk and the Contact Log to see if a representative payee assignment is pending or an application received but not yet processed.

**a. There is either a pending assignment or a pending application.**

Do not process the RRB-1001. Hold the material for 30 days and recheck the name and address block on TAS. Pend another 30 days as necessary. Once a representative payee is appointed, follow the instructions in item 5 above.

**b. There is neither a pending assignment nor a pending application.**

Do not process the Form RRB-1001. Image it. Send a Form RRB-1001 package to the annuitant. Explain on the transmittal letter that we received a RRB-1001 we cannot accept because someone else signed it. Request the annuitant complete and sign the new form. This should result in the annuitant signing and submitting the form, or in a request for the necessary paperwork to establish a representative payee on record. Image a copy of the transmittal letter.

### **210.75.15 Returned Forms RRB-1001 White and RRB-1001 Buff - Reviewing Forms for United States Taxpayer Identifying Numbers**

Form RRB-1001, Section 3, Item B, United States Taxpayer Identifying Number (TIN) **is not** a required item entry. If the individual submits a Form RRB-1001 without a United States TIN, an otherwise properly signed form may be used to establish citizenship and/or residence. Proof of residence may be needed as described in TOM 210.75.35.

A form received from a U.S. citizen residing anywhere or from a NRA claiming residence in a non-tax treaty country should not be returned for entry of a U.S. TIN in Item B, even if the tax treaty exemption claim box is checked YES. That's because these individuals are not eligible for tax treaty exemptions, and a U.S. TIN is only required to validate a tax treaty exemption claim.

There are three types of United States TINs used to report RRA payments to the Internal Revenue Service (IRS). For individuals, enter Social Security Numbers and Individual Taxpayer Identification Numbers in Item B, Section 3 of Forms RRB-1001. For estates or administrators of estates, enter Employer Identifying Numbers in Item B, Section 3 of Forms RRB-1001.

#### **1. Social Security Numbers (SSNs)**

SSNs are assigned by the Social Security Administration to citizens of other countries who plan to work in the United States.

#### **2. Individual Taxpayer Identification Numbers (ITINs)**

ITINs are assigned by the Internal Revenue Service to citizens of other countries who are not eligible to receive SSNs.

#### **3. Employer Identifying Numbers (EINs)**

EINs are assigned by the Internal Revenue Service to Estates of deceased individuals. Submit Forms RRB-1001 White received from Estates or Administrator of Estates of deceased individuals to the Tax, Clerical and Imaging Section-Tax Section for handling.

**Note:** Some individuals handling Forms RRB-1001 appear to equate Taxpayer Identifying Numbers and Individual Taxpayer Identification Numbers, perhaps because of the similarity of IRS acronyms TIN and ITIN. TINs and ITINs are two different types of numbers. A TIN is a United States Taxpayer Identifying Number. An ITIN, along with a SSN and an EIN, are specific **types** of TINs.

### **210.75.20 Returned Forms RRB-1001 White and RRB-1001 Buff - Determine if Forms Must be Returned for Reasons Other than the Signature**

#### **a. Form RRB-1001 White**

RRB-1001 Section 3, items 1 and 2 are required items. If neither item is completed or if the answer is illegible, the form must be returned to the annuitant.

If only one of these two items is completed legibly and if the form has an acceptable signature, enter the acceptable response into the Taxation Accounting System (TAS). See TOM 210.80 for information about entering Form RRB-1001 information into TAS.

Image the original form and return it to the annuitant for completion of the missing information. See TOM 210.75.45 regarding return of incomplete Forms RRB-1001 to the applicant/annuitant or his or her RRB recognized representative payee.

A response to the tax treaty exemption claim item **is not** a required response. You do not need to return the form to the annuitant if a response to the tax treaty exemption claim question is the only omission on the form. It's also acceptable to return the form after it is imaged and advise the annuitant that a response to the item was omitted. You may not alter a form once it's completed by the annuitant, so under these circumstances, you may not answer the question for the annuitant.

**b. Form RRB-1001 Buff**

For tax treaty exemption claim renewals, the following items are required entries:

- Item B, United States Taxpayer Identifying Number. This may be a Social Security Number (SSN) or an Individual Taxpayer Identification Number (ITIN).
- Item 2, Country of Legal Residence.
- Item 3, Response to the tax treaty exemption claim question. A "YES" response is needed to renew the tax treaty exemption.
- Item 5, Signature and Date.

Use of Form RRB-1001 White in lieu of Form RRB-1001 Buff. If substituting a Form RRB-1001 White for a Form RRB-1001 Buff:

- Enter "DO NOT COMPLETE" in the response box of item 1, "Enter your claimed country of citizenship."
- Enter "DO NOT COMPLETE" in the response box of Item 4, "Enter your United States passport number only if you have a U.S. passport that has not expired."

## **210.75.25 Returned Forms RRB-1001 White - Review for Country of Citizenship Claims, Section 3, Item 1**

Claims of citizenship should be accepted as stated unless there is a known or suspected conflict with previously submitted information. Refer to RCM 4.9.10.10, Citizenship Claims for RRA Taxation Purposes, for additional information. Please also see notes 1, 2, and 3 at the end of this section.

### **1. Conflicts**

Conflicts can be determined from information on Form RRB-1001, and by comparing information on Form RRB-1001 with TAS information available on the Online Form RRB-1001/RRB-1001 Buff screen. For example:

- The form contains a claim of non-United States citizenship in item 1 and entry of a United States passport number in item 4.
- The form contains a claim of non-United States citizenship and TAS contains a claim of United States citizenship. In the upper portion of the Form RRB-1001 online screen is the citizenship and country of residence information in TAS before receipt of the new form. If Form RRB-1001 claims citizenship in a country other than the United States and TAS contains a 1 (U.S. citizen), there is a conflict.
- The form contains a claim of United States citizenship and TAS contains a claim of non-United States citizenship. In the upper portion of the Form RRB-1001 online screen is the citizenship and country of residence information in TAS before receipt of the new form. If Form RRB-1001 claims U.S. citizenship and TAS contains a 2 (alien of the United States), there is a conflict.

Conflicts can also exist if information on the Imaging system or in the claim folder is inconsistent with information on an incoming Form RRB-1001.

### **2. Claims of Dual Citizenship**

#### **a. One of the Claimed Countries of Citizenship is the United States**

If an individual claims dual citizenship and one of the countries is the United States, consider the individual to be a United States citizen. United States citizenship takes priority over a second claimed country of citizenship.

Enter United States citizenship when processing Form RRB-1001 using the Online Form RRB-1001/RRB-1001 Buff Process. Image the original form and screen print.

Send a request to the Tax, Clerical and Imaging Section, Tax Section (TCIS-TS), advising that the Form RRB-1001 has been imaged. Request TCIS-TS enter the second country of citizenship into TAS. TCIS-TS will enter the second country into the “Dual Citizenship Country Code” field in the individual’s Annuitant Tax Record.

**b. Neither of the Claimed Countries of Citizenship is the United States**

Do not process Form RRB-1001. Be sure the receipt date is legible on the Section 3 side of the form. Image the form. Send a request to TCIS-TS to handle the dual citizenship claim, advising that the Form RRB-1001 has been imaged. TCIS-TS should refer these to Policy and Systems, Payment Analysis and Systems for instructions.

**3. Claimed Country of Citizenship is Acceptable, Claimed Country of Residence is Not Acceptable**

If Form RRB-1001 White has an acceptable signature (see TOM 210.75.10) and the claimed country of citizenship is acceptable, but the country of residence is not, enter the citizenship information into TAS and return the original form to the annuitant for the missing response. See TOM 210.75.45 on returning incomplete Forms RRB-1001 to the annuitant or representative payee. See TOM 3115.25 for information on how to handle citizenship and residence entries using the Online Form RRB-1001/RRB-1001 Buff Process.

**Note 1:** Establishing United States citizenship will change NRA tax rules to U.S. citizenship tax rules and remove NRA tax withholding.

**Note 2:** If an annuitant responds that his or her country of citizenship is “Puerto Rico, U.S.A.”, the country is Puerto Rico, not the United States.

**Note 3:** There are two Virgin Islands countries, the U.S. Virgin Islands and the British Virgin Islands. We have special handling instructions for the U.S. Virgin Islands, but not for the British Virgin Islands. If an annuitant responds that his or her country of citizenship is the “U.S. Virgin Islands” or the “U.S. Virgin Islands, U.S.A.”, refer the Form RRB-1001 to the Tax, Clerical and Imaging Section – Tax Section (TCIS-TS) for handling. TCIS-TS should refer these to Policy and Systems, Payment Analysis and Systems for instructions.

**210.75.30 Returned Forms RRB-1001 White and RRB-1001 Buff - Review for Country of Residence Claims, Section 3, Item 2**

The claimed country of residence for tax purposes should be accepted as given unless (1) there is a known conflict with previously submitted information, or (2) the claimed country of residence disagrees with the country in the annuitant’s mailing address.

A claim of residence in a tax treaty country may not be considered reliable if a) the claimed country of residence on Form RRB-1001 is a tax treaty country, but the mailing address is not in the claimed country of residence, or b) the annuitant has payments sent to an address that is not in the tax treaty country.

**Note 1:** If an annuitant responds that his or her country of residence is “Puerto Rico, U.S.A.”, the country is Puerto Rico, not the United States.

**Note 2:** There are two Virgin Islands countries, the U.S. Virgin Islands and the British Virgin Islands. We have special handling instructions for the U.S. Virgin Islands, but not for the British Virgin Islands. If an annuitant responds that his or her country of residence is the “U.S. Virgin Islands” or the “U.S. Virgin Islands, U.S.A.”, refer the Form RRB-1001 to the Tax, Clerical, and Imaging Section – Tax Section (TCIS-TS) for handling. TCIS-TS should refer these to Policy and Systems, Payment Analysis and Systems for instructions.

### **210.75.35 Returned Forms RRB-1001 White and RRB-1001 Buff - When Proof of Residence For Tax Purposes is Required**

Proof of residence is required when any one of the following situations exists. If one of these situations does exist, see RCM 4.9.10.10, Residence Claims for RRA Taxation Purposes.

1. An **established or assumed nonresident alien** claims to be a legal resident for income tax purposes of a country other than the country in his or her mailing address.
2. An **assumed or established nonresident alien** provides a change of address to one of the 50 states or Washington D.C., and, with the change of address, claims to be a resident of the United States for income tax purposes.
3. An **established nonresident alien** provides a change of address from one foreign country to a different foreign country. With the change of address, the individual now claims to be a legal resident of the second country and claims exemption under the second country’s income tax treaty.
4. An **assumed or established nonresident alien** claims legal residence **in a foreign country** and has a mailing address **in a different country** at one of the following:
  - a. A financial institution, or
  - b. In-care-of (c/o) another individual, or
  - c. At a post office box (P.O. Box).

5. An **established nonresident alien** claims legal residence **in the United States** and has a mailing address at one of the following:
  - a. A financial institution, or
  - b. In-care-of (c/o) another individual, or
  - c. At a post office box (P.O. Box).

Check the Section 2, RRB/State Department Use item on Form RRB-1001 White to see if a U.S. Embassy or Consulate Office or RRB field office has already developed for any required proof of residence. If so, see if the proof identified in Section 2 is acceptable according to RCM 4.9.10.10, Residence Claims for RRA Taxation Purposes. If it is, see if it supports the claimed country of legal residence shown in Section 3 item 2 of Form RRB-1001. If it does, and if the reviewing official signed and dated Section 2, accept the claimed country of legal residence shown in Item 2 on the form. If not, develop for proof of residence according to RCM 4.9.10.10, Residence Claims for RRA Taxation Purposes.

#### **210.75.40 Returned Forms RRB-1001 White and RRB-1001 Buff – Review for Tax Treaty Exemption Claims, Section 3 Item 3**

A tax treaty exemption claim of “Yes” in item 3 of Forms RRB-1001 and RRB-1001 Buff may not be accepted without:

1. A valid signature in item 5.
2. The individual’s **United States** taxpayer identifying number (U.S. TIN) in item B. A U.S. TIN is one of the following:
  - a Social Security Number (SSN)
  - an Individual Taxpayer Identification Number (ITIN)
  - an Employer Identifying Number (EIN)
3. A valid country of legal residence claim in item 2 for a country has an income tax treaty with the United States that would allow for reduced tax withholding of SSEB payments or for reduced tax withholding of pension (NSSEB, tier 2, VDB, and supplemental annuity) payments.

#### **210.75.45 Forms RRB-1001 White or RRB-1001 Buff That Must be Returned to the Annuitant or Representative Payee**

Image incomplete Forms RRB-1001 and RRB-1001 Buff. Use Railroad Retirement Tax Notice TXL-26, available on RRAILS, to return incomplete forms to the annuitant or his or her RRB approved representative payee.

If required citizenship or residency information is missing from a Form RRB-1001, return the form with Form TXL-26, marking the checkbox “Item \_\_\_\_\_ was not completed or was illegible. Enter the missing Form RRB-1001 item number.”

It is not necessary to return a Form RRB-1001 or Form RRB-1001 Buff for completion of missing tax treaty claim information. If the annuitant did not answer the tax treaty claim question, you may process the form showing that the question was not answered. You may also image and return the form to the annuitant for completion of the question. Since you may not alter a completed form, you may not complete the item for the annuitant.

**210.75.50 Returned Forms RRB-1001 White and RRB-1001 Buff and Related Information That Must be Handled by the Tax, Clerical and Imaging Section–Tax Section (TCIS-TS)**

Below are 10 situations in which Forms RRB-1001 White and/or RRB-1001 Buff must be handled by TCIS-TS. Before submitting a form copy to TCIS-TS, please take the following actions:

- Be sure the receipt date in the field office is legible on the Section 3 side of the form.
- Image the form before sending a copy to TCIS-TS.
- If entry is attempted very near the TAS Recert operation run date or the December Cost of Living Mass Adjustment run date, please send an e-mail to TCIS-TS with a copy of the Form RRB-1001 and any related material attached, and a brief explanation of why you are referring it. Doing this may avoid a processing delay.

**1. Citizenship Information Only is Provided**

Do not use the Online Form RRB-1001/Form RRB-1001 Buff Process to enter citizenship only information received on Forms RRB-1001 or other written statements. Send citizenship only forms and statements to the Tax Clerical and Imaging Section-Tax Section (TCIS-TS) for entry.

**2. Dual Citizenship is Claimed and Neither Country is the United States**

Submit claims of dual citizenship in which neither claimed country is the United States to TCIS-TS for handling.

TCIS-TS should refer these claims to Policy and Systems, Payment Analysis and Systems for direction.

**3. Citizenship or Residence in the United States Virgin Islands is Claimed**



Submit claims of citizenship in the United States Virgin Islands and/or residence in the United States Virgin Islands to TCIS-TS for handling.

TCIS-TS is to refer these claims to Policy and Systems, Payment Analysis and Systems for direction.

**4. IRS Form W-8BEN is Submitted Instead of Form RRB-1001**

Submit IRS Forms W-8BEN, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding, to TCIS-TS.

TCIS-TS is to refer these claims to Policy and Systems, Payment Analysis and Systems (PAS) for direction. PAS will advise regarding release of a Form RRB-1001 package with a special cover letter to the annuitant.

**5. Forms RRB-1001 White or RRB-1001 Buff are Correctly Entered into the Online Process Screen, but the Entries Do Not Clear the Screen Edits**

Once Form RRB-1001 and/or RRB-1001 Buff information has been correctly updated to the Online Process screen, do not keep entering information if screen edits prevent acceptance of the form.

Forward the form to TCIS-TS for entry into the Form RRB-1001 online process. This may occur for any of a number of reasons, the most common being failure to pass valid ITIN range edits. If entry is attempted very near the TAS Recert operation run date or the December Cost of Living Mass Adjustment run date, please fax a copy of the form to TCIS-TS with a brief explanation that your entry attempt did not pass the ITIN (or whatever is applicable) screen edit.

**6. Forms RRB-1001 White or RRB-1001 Buff are Correctly Entered into TAS, but Expected Annuity Adjustment Action Does Not Occur.**

Once Form RRB-1001 and/or RRB-1001 Buff information has been correctly updated to the Taxation Accounting System (TAS), and the expected annuity adjustment does not occur, do not keep entering information into the Online RRB-1001/RRB-1001 Buff Process. Something else is preventing the annuity adjustment and needs to be addressed. Additionally, each time a new form is entered, history from the previous form is written over. Re-entering information can inhibit the investigation into why the original form entry was not successful.

If you encounter this situation, contact TCIS-TS after you have confirmed that the original entry information in TAS appears to be correct.

**7. Forms RRB-1001 White are Correctly Entered into TAS, but an Estate's EIN has Been Entered in the SSN Feld.**

Form RRB-1001 White contains an Employer Identifying Number (EIN) in the SSN field in TAS. Contact TCIS-TS after all field action is taken and request the EIN be manually removed from the SSN field and entered in the EIN field in TAS. 000000000 should then be entered in the SSN field.

**8. Form RRB-1001 White or Form RRB-1001 Buff Contains a Country of Citizenship or Country of Residence that is Not on the NRA Table Report.**

If Form RRB-1001 White or Form RRB-1001 Buff contains a country of citizenship or a country of residence that is not on the NRA Table Report, submit the form to TCIS-TS to handle. If this occurs close to monthly TAS Recert operation run or a mass adjustment run, fax the request for TCIS-TS handling.

**9. Form RRB-1001 Buff is Entered into TAS Early**

A Form RRB-1001 Buff completed so it **will not** renew reduced tax withholding under an income tax treaty should be held until just prior to the start of the December cost of living mass adjustment. The existing tax treaty exemption claim is valid through December of the year of expiration.

Entering the form prior to the October or November TAS Recert operations is a handling error that will result in early loss of the tax treaty exemption. If early entry is detected by field office staff, send a copy of the receipt dated and Imaged copy of Form RRB-1001 Buff to TCIS-TS as soon as possible indicating an early entry error.

See TOM 210.90.10 , Negative Impact of Early Entry of Certain Forms RRB-1001 Buff into TAS, for additional information.

**10. Form RRB -1001 White or RRB-1001 Buff is Entered into TAS Late**

A Form RRB-1001 White or RRB-1001 Buff completed so it **will** establish or renew reduced tax withholding under an income tax treaty may be entered as soon as it is received. These forms should not be held for later processing. Holding a form for later processing can result in late implementation of reduced tax withholding under the tax treaty. If late entry is detected by field office staff, send a copy of the receipt dated and Imaged copy of Form RRB-1001 White or Form RRB-1001 Buff to TCIS-TS as soon as possible indicating a late entry error.

See TOM 210.90.05, Negative Impact of Late Entry of Certain Forms RRB-1001 White and RRB-1001 Buff Information into TAS, for additional information.

### [210.80 Entering Valid Form RRB-1001 and Form RRB-1001 Buff Data into the Taxation Accounting System](#)

Use the Online Form RRB-1001/RRB-1001 Buff process to enter Form RRB-1001 and Form RRB-1001 Buff information into TAS. Follow instructions in TOM 3115 on how to access and use the Online Form RRB-1001/ RRB-1001 Buff process.

TAS individual field changes should be handled manually by TCIS-TS. Do not use the online Form RRB-1001/RRB-1001 Buff process as a TAS correction process.

### [210.85 Image Processed Forms RRB-1001 and RRB-1001 Buff and the Completed Online Form RRB-1001/RRB-1001 Buff Process Screen Print](#)

Offices should image both the front and back of Forms RRB-1001 White and the front only of Forms RRB-1001 Buff. If any receipt stamps are on the receiving envelope or the back of Forms RRB-1001 Buff, either image the envelope or back of the form or transfer the receipt date to the front of Form RRB-1001 or Form RRB-1001 Buff, taking care not to obscure any of the individual's responses.

Make a print of the Online Form RRB-1001/RRB-1001 Buff Process screen after all entries are made and the screen message displays "THIS TRANSACTION WILL HAVE:" along with the potential TAS contents of the "TAX CITZ STAT CD:" and "TAX TRTY EXEMPT CD:" fields. Sign and date the screen print, and image it along with Form RRB-1001 or Form RRB-1001 Buff.

Image all online entry actions taken on Forms RRB-1001 and RRB-1001 Buff. **It is important to document all form entry attempts, not just the forms themselves.** Without this information, we cannot always tell when correct or incorrect information was actually updated to TAS.

Print a copy of the Online Form RRB-1001/RRB-1001 Buff Process screen after all entries have been made and successfully updated to the RRB-1001 transactional database. When this occurs, the message "RRB-1001/RRB-1001 BUFF TRANSACTION HAS BEEN ADDED TO THE DATABASE" will appear in the lower portion of the screen. Sign and date the printed copy and identify your field or Headquarters' office. Image this documentation along with the associated Form RRB-1001 or Form RRB-1001 Buff.

## **210.90 Negative Impacts of Late or Early Entry of Forms RRB-1001 White and RRB-1001 Buff Information into the Taxation Accounting System (TAS)**

### **210.90.05 Negative Impact of Late Entry of Certain Forms RRB-1001 White and RRB-1001 Buff Information into TAS**

Process properly completed Forms RRB-1001 White as soon as possible after receipt so they are in place for both daily and monthly award actions. Use the monthly Operations calendars to note the dates of the monthly TAS Recert runs in January through November, and the date of the Tax Recalculation portion of the annual cost of living mass adjustment in December.

**Enter all properly completed Forms RRB-1001 and RRB-1001 Buff by 2:00 P.M. Chicago time on the business day before the day TAS Recert or the Tax Recalculation is posted on the calendar. Continue to enter forms received after the 2:00 P.M. timeframes described above, as TAS Recert and Tax Recalculation program start times vary. Be aware, however, that forms entered after the 2:00 P.M. timeframes may or may not make the pending TAS Recert or Tax Recalculation runs.**

Special rules apply to entry of Forms RRB-1001 Buff when tax treaty exemptions expire at year end. See TOM 210.90.10 for more information.

Should RRB delays that are disadvantageous to annuitants come to your attention, please take all form handling actions needed and then notify TCIS-TS.

Before submitting a form copy to TCIS-TS, please take the following actions:

- Be sure the receipt date in the field office is legible on the front of the form.
- Image the form before sending a copy to TCIS-TS.
- If entry is attempted very near the TAS Recert operation run date or the December Cost of Living Mass Adjustment run date, please send an e-mail to TCIS-TS with a copy of the Form RRB-1001 and any related material attached, and a brief explanation of why you are referring it. Doing this may avoid a processing delay.

### **RRB delays in implementing current year nonresident alien tax withholding creates significant manual work for TCIS-TS.**

As timing allows, TCIS-TS does the following:

1. If late form handling crossed a tax year, modifies the tax treaty exemption expiration date in TAS,

2. Bypasses automated tax statement processing for the year following the year of the tax treaty exemption expiration,
3. Determines the amount of the income tax refund awards needed to reimburse annuitants for over-withholding of taxes for the year following the year of the tax treaty exemption expiration,
4. Processes one payment only award actions to pay the tax refunds,
5. Prepares special award letters for the refund payments,
6. Adjusts the RRB's tax deposits for the income tax refunds, and
7. Prepares and releases manual tax statement(s) after the close of the tax year following the year of the tax treaty exemption expiration.

This work can be avoided by timely and accurate entry of Form RRB-1001 White and RRB-1001 Buff information into the Taxation Accounting System (TAS).

#### **210.90.10 Negative Impact of Early Entry of Certain Forms RRB-1001 Buff into TAS**

Forms RRB-1001 Buff issued by the Nonresident Alien Monitoring Program target individuals whose tax treaty exemption claims will expire at year's end. **If you receive a Form RRB-1001 Buff that is incomplete and the form information or lack of information would cause the individual to lose his or her tax treaty exemption claim, do not process the Form RRB-1001 Buff at the time of receipt.** Wait until after the November TAS Recert operation has run. **The best time to enter these forms would be a few days before the December Cost of Living (COL) mass adjustment begins.** See TOM 210.15, Reduced Nonresident Alien Tax Withholding Under Income Tax Treaties. Items 1, 2, and 3, define conditions that constitute both eligible individuals and properly completed tax treaty exemption claims on Forms RRB-1001.

If you receive an incomplete form, return the incomplete form to the annuitant requesting completion. Follow the rules in TOM 210.65, Restrictions on Form RRB-1001 and Form RRB-1001 Buff Items RRB Personnel May Pre-Complete or Alter. Be sure to image the incomplete form and your request for annuitant action before releasing the material to the annuitant. Retain access to a copy of the incomplete form for possible entry into the Form RRB-1001/RRB-1001 Buff online process before the COL. You should do this if you not receive a response from the annuitant. See the second arrow below.

- If you returned an incomplete form **and received** a properly completed form before the COL mass adjustment, enter the properly completed form information into the online process. Image the properly completed form and your online entry screen print.

- If you returned an incomplete form and **did not receive** a properly completed form before the COL mass adjustment, **enter the improperly completed form information** into the online process. Image your online entry screen print. You should have already imaged the incomplete form before returning it to the annuitant. Entering the improperly completed form will result in loss of reduced tax withholding, and the imaged form and screen entry print will document why and when this happened.

Delaying entry of an improperly completed form received in October or November will allow the individual to receive reduced tax withholding through the monthly payment dated December 1 of the expiration year. **Processing incomplete Forms RRB-1001 Buff earlier than they have to be processed will result in loss of tax treaty exemptions before the current form officially expires.** In these instances, 30% mandatory nonresident alien tax withholding may then be applied to payments that could be covered by reduced rates.

Should disadvantageous early processing by the RRB come to your attention, complete all form handling actions and then notify TCIS-TS. Include a copy of the receipt dated and Imaged Form RRB-1001 Buff that was entered early before submitting notice that early handling was involved. **RRB errors resulting in early loss of reduced tax treaty rates in the year of the tax treaty exemption expiration creates significant manual work for TCIS-TS.**

As timing allows, TCIS-TS does the following:

1. Bypasses automated tax statement processing for the year of the tax treaty exemption expiration, and, if needed, for the following year,
2. Determines the amount of the income tax refund awards needed to reimburse annuitants for over-withheld taxes in the year of the tax treaty exemption expiration, and, if needed, for the following year,
3. Processes one payment only award actions to pay tax refunds for the year of the tax treaty exemption expiration, and, if needed, for the following year,
4. Prepares special award letters for the tax refund payments,
5. Takes action to adjust the RRB's tax deposits for the income tax refunds, and
6. Prepares and releases manual tax statement(s) after the close of the tax year of the tax treaty exemption expiration, and, if needed, for the following year.

This work can be avoided by timely and accurate entry of Form RRB-1001 Buff information into the Taxation Accounting System (TAS).

## 215 Manual Tax Withholding Input

In determining the amount of tax withholding that should be applied to an annuitant, the RRB uses information supplied on Forms RRB W-4P and RRB-1001 and IRS Form W-4V.

The RRB W-4P and IRS W-4V are completed only by citizens, while the RRB-1001 is completed by NRAs and those citizens moving to a foreign country to claim U.S. citizenship.

The information provided on the W-4P is entered on-line for updating the automated tax record. An explanation of the On-Line W-4P system is found in TOM 3110.

### 215.10 Forms RRB W-4P, IRS W-4V, and RRB-1001

Forms RRB W-4P and RRB-1001 are the RRB forms a beneficiary may complete that may affect the amount of taxes withheld from annuity payments. Citizens may also submit IRS Forms W-4, W-4P, or W-4V.

The RRB W-4P may only be used by beneficiaries whose tax withholding is calculated using citizen rules.

The RRB-1001 (or Form T-64) may be used by any railroad retirement beneficiary living outside of the 50 states or the District of Columbia to inform the RRB of his/her citizenship, residence, and tax treaty exemption status.

### 215.15 Handling RRB W-4Ps or IRS W-4Vs from Nonresidents

An RRB W-4P or IRS W-4V that is received showing an address outside the 50 states or the District of Columbia should be held until TAS Screen PF19 (Citizenship and Residency Information) is checked for RRB-1001 data.

#### 215.15.05 When the RRB W-4P or IRS W-4V May Be Processed

1. For cases where withholding is elected on the RRB W-4P or IRS W-4V if,
  - a. TAS has a citizenship status code of:

0	Assumed U.S.,
1	U.S. citizen,
4	citizen of Guam,
5	citizen of Puerto Rico,

8	U.S. citizen residing in Romania, or,
9	Resident alien regardless of the country of legal residence code, the RRB W-4P or IRS W-4V may be processed if;

- b. TAS has a country of legal residence code of:

US	United States,
RQ	Puerto Rico,
GQ	Guam, or
CQ	Northern Mariana Islands,

regardless of the citizenship status code, the RRB W-4P may also be processed.

2. For cases where no withholding is elected on the RRB W-4P, if:

TAS has a citizenship status code of:

4	citizen of Guam, or
5	citizen of Puerto Rico,

regardless of the country of legal residence code or RRB W-4P address, the RRB W-4P (or IRS W-4V) may be processed.

### **215.15.10 When the RRB W-4P and IRS W-4V May Not Be Processed**

If the RRB W-4P has a "yes" or "no" withholding election, or the W-4V has one of the four tax withholding percentages checked, you must also check the tax citizenship status code on TAS. If the code is:

2 = alien, and

a country of legal residence code other than US (United States), RQ (Puerto Rico), GQ (Guam), or CQ (Northern Mariana Islands), compare the country in the TAS address to the country in the RRB W-4P address. If the countries are the same, the RRB W-4P may not be processed. Release a letter acknowledging receipt of the RRB W-4P (or IRS W-4V, W-4P or W-4 if submitted) stating that



NRA beneficiaries may not elect or decline tax withholding. The RRB W-4P should be enclosed and returned to the beneficiary. A copy should be retained for the file.

### **215.15.15 When to Refer the RRB W-4P or IRS W-4V to TCIS-TS**

1. Whether the RRB W-4P has a "yes" or "no" withholding election, (or IRS W-4V has a box checked in Item 6) refer the case to TCIS-TS if TAS has a citizenship status code of:
  - a. 6 =no withholding applies under the revised Organic Act of the Virgin Islands, the Organic Act of Guam, or under Northern Mariana Islands Statute, regardless of the country of legal residence code:  
or
  - b. 7 =U.S. citizen residing in Egypt, refer the RRB W-4P and TAS Screen PFI9 printout to TCIS-TS.
2. If a "no" withholding election is made on the RRB W-4P, further editing may be required. based on the Tax Reform Act of 1986, a U.S. citizen whose physical residence address is outside the 50 states, the District of Columbia, Puerto Rico, Guam, the Northern Mariana Islands, or the Virgin Islands may not elect "no" withholding from pension or annuity payments effective January 1, 1988. Therefore, in such cases, if TAS Screen PF19 shows a citizenship status code of:

1 = U.S. citizen, or

8 = U.S. citizen residing in Romania

and the RRB W-4P address is outside the 50 states, the District of Columbia, Puerto Rico, Guam, the Northern Mariana Islands or the Virgin Islands; do not process the RRB W-4P. Refer these to TCIS-TS. Please notate that this is a U. S. citizen living abroad.

### **215.15.20 When Investigation Is Required**

Whether the RRB W-4P has a "yes" or "no" withholding election, if:

1. TAS Screen PFI9 has a citizenship status code of:

0 = undetermined or assumed U.S. citizen,

and both the country of legal residence code and the RRB W-4P address are outside the 50 states, the District of Columbia, Guam, or the Northern Mariana Islands, do not take any action on the RRB W-4P. Forward the RRB W-4P to TCIS-TS.

TCIS-TS will release an RRB-1001 package to the beneficiary with Form Letter TL-26. TCIS-TS will check the box, "You reside outside the United States and we have not received a questionnaire from you." TCIS-TS will control the case for return of the RRB-1001 by earmarking the "General Instructions" side of the form with the notation "RRB W-4P" in the upper right-hand corner. When the form is returned it will not be batched with other RRB-1001's for processing. TCIS-TS should keep the file, including the RRB W-4P, in a file cabinet marked "NRA's". See the instructions in Section 215.15.25 for handling the RRB-1001 once it is returned.

2. TAS Screen PFI9 has a citizenship status code of:

2 = alien, or

3 = assumed alien,

and a country of legal residence code other than U.S., GQ (Guam), or CQ (Northern Mariana Islands). Compare the country on TAS screen PF16 to the country in the RRB W-4P address. If the countries are different, or if the citizenship status code is "3", do not take immediate action on the RRB W-4P. In both situations, forward the RRB W-4P to TCIS-TS.

TCIS-TS will release an RRB-1001 package to the beneficiary with Form Letter TL-25. If the citizenship status code is "3" and the country of legal residence code is OC, TCIS-TS will check the box, "You reside outside the United States and we have not received a questionnaire from you." Otherwise TCIS-TS will check the box, we need to verify your citizenship status and country of 'legal residence." TCIS-TS will control the case as described in "1" above and handle the RRB-1001 once returned as described in Section 215.15.25.

## 220 Automated Tax Withholding

### 220.05 General

The automated tax withholding test is performed on certain daily award activity. These are described in Sections 220.10 and 220.15.

Taxes are calculated according to citizen or NRA rules. If taxes should be initiated, changed, or removed according to the test, the withholding adjustment occurs before the award clears CHICO (i.e., tax withholding intervention occurs after the award is created mechanically or vouchered and keyed manually, but before check issue).

## 220.10 Daily Award Activity

Beginning with December 1985 vouchers, the tax withholding test is performed on the recurring rate portion for the following daily activity that is processed by DAISY/CHICO. Effective with June 1986 vouchers, the tax withholding test is also performed on the accrual portion of these payments.

- A. RASI
- B. SURCAL
- C. Annual awards vouchered on Form G-357 and G-364

The tax withholding test is not performed on one-pay-only awards at this time.

## 220.15 Tax Withholding Recertifications (TAS RECERT)

In June of 1985, the TAS withholding recertification program (TAS RECERT) began running. TAS RECERT automatically recertifies recurring payments to reflect RRB W-4P, IRS W-4V, and NRA tax withholding adjustments. TAS RECERT calculates taxes based on citizen or NRA rules using the latest RRB W-4P, W-4V or RRB-1001 information and compares it to the amount of taxes currently in effect. If a change in tax withholding is indicated, TAS RECERT creates an automated award that is taken into the daily award activity to adjust the check rate and tax withholding. Prior to 12/94, TAS RECERT never ran in December. Now, we process disability freeze (DF) records in December.

Common events that may cause a change in tax withholding:

- Form RRB W-4P, IRS W-4V, or RRB-1001 filed,
- Tier 2 contributions have been recovered,
- There is a change in NRA tax withholding percentages,
- There is a change in a tax treaty,
- There is a change in citizen tax withholding tables,
- There is a change in the annuity amount or components,
- A supplemental annuity is awarded, or
- There is a change of address to a foreign country.

A tax withholding adjustment may be made in the following situations also:

- There is a change in the total amount of taxes to be withheld (taxes have been initiated, have increased, decreased, or been removed):
- There is no change in the total amount of taxes in a citizen case, but the proration of the tax withholding amount between the annuity components changes (administrative recertification).
- There is a change in the type of taxes even if taxes are zero (citizen withholding rules to NRA withholding rules and vice versa): or
- Tier 2 contribution has been recovered in a citizen case even if taxes are zero.

Generally, an automated TL-120 notice will be produced for each recertification unless it is an administrative recertification. The notice will furnish the reason for the adjustment, the gross recurring amount payable (railroad and supplemental), the amount of any taxes withheld, the amount of any supplemental medical insurance premium deduction, and any partial withholding amount in effect.

The following cases cannot be adjusted by TAS RECERT:

- Suspension or terminations, or
- The check rate in the database does not match the check rate in CHICO (total of railroad retirement and supplemental annuity payments), and there is no unidentified paid amount in the database.

## **225 Manual Tax Withholding Input**

Prior to 1987, manual tax withholding was computed on Form G-357T. Effective for January 1987 vouchers and later, Form G-357T is no longer used and manual tax withholding is not done.

However, manual actions can be taken to affect automated tax withholding as explained in Section 225.15.

### **225.15 Processing A Zero Accrual Recert To Effect Tax Withholding**

If TAS RECERT is not operational or does not select a case for recertification to automatically withhold taxes, TCIS-TS can cause a change in the recurring tax withholding amount by processing a zero accrual recertification to the same rate. If the change in tax withholding involves a supplemental annuity, Form G-354 SUP must accompany the G-357 payment sheet. The zero accrual recert will trigger the withholding module in TAS (William) to change the tax withholding amount.

If a change is required, TCIS-TS will check the information from Form RRB W-4P and/or Form RRB-1001 (unless mandatory rules apply). This information can be seen on the Citizenship and Withholding/Attainment TAS screens (PF18 and 19).

If the citizenship election or nonresident data is correct, a zero accrual recert should be processed. If the data is incorrect, TCIS-TS should process a corrected RRB W-4P or RRB-1001. After the forms have been processed, TCIS-TS will process the zero accrual recert.

## **230 Tax Withholding Notices**

### **230.05 Automated Tax Withholding Notice Module**

Whenever tax withholding is initiated, adjusted, or removed automatically as described in Sections 220.10 and 220.15, a tax withholding notice on Form TL-120 is generated. This is in addition to any other railroad retirement award or adjustment notice that may be released manually or automatically.

An automated tax withholding notice is also sent by TAS RECERT in citizen rule cases when the employee contribution has just been recovered but tax withholding is not in effect.

Automated TL-120 forms are assembled from an assortment of code paragraphs and contain special variable information. Only an original copy is produced.

## 300 Tax Statements

### 300.05 General Information

The U.S. Railroad Retirement Board (RRB) issues tax statements to beneficiaries who receive taxable Railroad Retirement Act (RRA) annuity benefits or Railroad Unemployment Insurance Act (RUIA) benefits. The Taxation Operations Manual (TOM) only discusses RRB RRA tax statements. RRB RUIA tax statements are not discussed in TOM 300 or in any other section of TOM. For information concerning RRB RUIA tax statements, refer to DPOM/FOM Section 135. Therefore, any reference in TOM 300 to “RRB tax statements” refers to RRB RRA tax statements.

The RRB will issue RRA tax statements to those beneficiaries who received (were paid), repaid, or had U.S. Federal taxes withheld from railroad retirement act annuity benefits. The RRB will follow the rules and regulations established by the United States Internal Revenue Service (IRS) and the Internal Revenue Code (IRC). Each year, we send the RRA tax statements (includes tax statement mailers) to the IRS for review and approval concerning the format and written content shown on the tax statements.

TOM 300.05 provides “general” information concerning the items found on the Railroad Retirement Act (RRA) tax statements and various tax-related topics or subjects associated with RRA payments, repayments and tax withholding. If there are any additional reference sources cited in this section, you should refer to those sources for more detailed information. In addition, you should refer to TOM 20, RRA Taxation Guidelines and Principles, for the underlying rules that regulate RRA taxation programs and tax examiner procedures that cover tax accounting, payments, repayments, tax withholding, and tax statement reporting issues.

**Payment** – A railroad annuity may include one, more or all of the following annuity component payments depending on age, type of annuity, and eligibility requirements:

- Social Security Equivalent Benefit (SSEB) portion of Tier 1,
- Non-Social Security Equivalent Benefit (NSSEB) portion of Tier 1,
- Tier 2,
- Vested Dual Benefit (VDB),
- Supplemental Annuity.

NOTE: The tier 1 annuity component may be composed of one or two portions depending on the beneficiary's age and type of annuity. The two portions of tier 1 are:

- SSEB portion of tier 1, and
- NSSEB portion of tier 1.

Therefore, a beneficiary may receive a tier 1 that is all SSEB, all NSSEB, or a combination of both SSEB and NSSEB.

NOTE: The cumulative total of the NSSEB portion of tier 1 and tier 2 payments is referred to as the "Contributory Amount Paid." The contributory amount paid is shown in Item 4 of the Form RRB-1099-R tax statement. Refer to TOM 135.10, Paid Amounts (Paid), for information on payments.

**Repayment** – A repayment or repaid is the return or recovery of an amount previously paid. We use the term "repayment" and "repaid" interchangeably. We report taxable repayments on the tax statements. We do not report nontaxable repayments on the tax statements. There are current year repayments (repayments made in the same year as the payment); prior year repayments (repayments made in the current year for payments that were made in a prior year); or other year repayments (repayments made in the current year for payments that were made in prior years or unknown years). Refer to TOM 135.15, Repaid Amounts (Repaid), and TOM 330, Repayments on Tax Statements, for information on repayments and for cash refunds for overpayments involving current year tax withholding

**Tax Withholding** – The RRB applies U.S. Federal income tax withholding to railroad annuity payments. The tax withholding is computed and based on citizenship and residence. For U.S. citizens, we consider marital status, tax withholding allowances, and additional tax withholding amount requests. For nonresident aliens (NRAs), we consider tax treaty exemption claims. Any election or change in tax withholding is dependent on the type of tax withholding election form(s) completed by the beneficiary and filed with the RRB. **A tax withholding amount is deducted from the gross taxable payment. Therefore, a tax withholding amount is considered a taxable payment. Taxable payments must be large enough to sustain deductions for tax withholding (i.e., tax withholding amounts cannot be greater than the taxable portions of gross payments).** For monthly railroad payments for citizens and NRAs, the tax withholding amount will always be less than the taxable monthly payment. For accrual railroad payments for citizens only, the tax withholding amount will be less than or equal to the taxable accrual payment. Taxes are withheld by railroad annuity component (SSEB, NSSEB, tier 2, VDB and supplemental annuity). Taxes withheld

from railroad annuity payments are deposited at the U.S. Treasury into either the U.S. citizen tax deposit account (if the beneficiary is taxed under U.S. citizen rules) or the nonresident alien tax deposit account (if the beneficiary is taxed under NRA rules). Taxes actually withheld and deposited during the year are reported on tax statements for that year, associated on IRS records by each individual's or each entity's U.S. taxpayer identifying number (i.e., social security number, individual taxpayer identification number, or employer identification number). Generally, taxable payments shown on all of the beneficiary's tax statements for the year is equal to or greater than the total tax withholding amounts shown on the same tax statements. As a result, there is a taxable payment that corresponds to the tax withholding amount on the tax statement and that payment must be at least equal to the tax withholding amount. In extremely rare circumstances tax statements may show tax withholding amounts without taxable payments. Please refer to TOM 200, Tax Withholding, for information concerning U.S. citizen tax withholding, mandatory U.S. citizen tax withholding, nonresident alien (NRA) tax withholding, tax treaties, and appropriate tax withholding election forms. Please refer to TOM 325, Corrected Tax Statements, for information concerning increasing or decreasing tax withholding amounts on corrected tax statements.

**Tax Refunds** - We issue refund payments of current year U.S. citizen and NRA income taxes. These payments are called, tax refunds. A refund of current year U.S. citizen rule income taxes withheld from RRA payments is issued only if an error is involved and if a specific request has been received. We issue refund payments of current year NRA rule income taxes withheld from RRA payments only if an error is involved. A request for the NRA tax refund is not required. Errors in tax withholding that require a tax refund involve the over-withholding of taxes due to not processing tax withholding election forms or tax treaty exemption claims timely and/or accurately. We **ONLY** issue tax refunds for RRA taxes withheld in the current tax year. We do **NOT** issue tax refunds for RRA taxes withheld in prior tax year(s). **Tax refunds are nontaxable payments and are not reported on tax statements.** However, tax refunds are considered in computing tax withholding amount totals shown on our tax statements (i.e., tax refunds reduce tax withholding amounts). Refunds of taxes must be processed as they were originally withheld. Therefore, a tax refund amount is broken down into the appropriate annuity components (SSEB, NSSEB, tier 2, VDB, supplemental annuity) as it was originally withheld.

For tax refund cases, a current year **TAXCOR NORECURR** is posted to the beneficiary's or entity's record showing the following: beneficiary's or entity's U.S. taxpayer identifying number (i.e., social security number, individual taxpayer identification number, employer identification number); the amount of the current year tax refund by annuity component(s); the appropriate tax deposit account code ("1" for



U.S. citizen or “2” for NRA) the tax refund will reduce; the beneficiary’s or entity’s tax citizenship status code and country of residence, and (if refunding NRA taxes) the tax withholding rate percentages (0%, 15% or 30%) that originally withheld the NRA taxes. This TAXCOR NORECURR reduces the appropriate tax deposit account and recovers the taxes previously withheld and deposited to that account, and returns those taxes to the RRB trust funds. In addition, this TAXCOR NORECURR is posted to the tax database (and NORECURR general tax screen). For tax refund cases involving NRA taxes, the case should be bypassed from automated original tax statement processing **using bypass code “013”** to ensure that the refunds are associated with the correct payment records. Refer to TOM 20.35, RRA Taxation Guidelines and Principles – Tax Withholding.

**Taxation of Railroad Annuities** - Railroad retirement, spouse, divorced spouse, survivor (widow and widower), child-in-care, and disability annuities consisting of tier 1, tier 2, and vested dual benefit (VDB) annuity components have been subject to United States Federal income tax since January 1, 1984. Supplemental annuities have been subject to U.S. Federal income tax since November 1, 1966. **For additional information, refer to the SSEB Taxability section and Pension Taxability section shown below.**

The Internal Revenue Code (IRC) requires an annual statement of benefits (i.e., tax statement) to be released to each beneficiary documenting the amounts of benefits paid; the total Social Security Equivalent Benefit (SSEB) portion of Tier 1 amount repaid; and the total amount of U.S. Federal taxes withheld beginning with tax year 1984.

**Railroad annuities are not taxable by States in accordance with section 14 of the Railroad Retirement Act (45 U.S.C. Section 231m). The RRB will not withhold State income taxes from railroad retirement payments.**

Prior to tax year 1992, the RRB also showed the actual taxable amounts, contribution recovery information, and simplified General Rule information on railroad retirement annuity tax statements. Effective with tax year 1992 and later, these amounts are no longer included on tax statements.

**SSEB Taxability** – The Social Security Equivalent Benefit (SSEB) portion of tier 1 and special guaranty (overall minimum, or OM) benefits are treated in the same manner as a social security benefit for U.S. Federal income tax purposes. The SSEB payments, repayments and tax withholding amounts are shown on the Form RRB-1099 tax statement (for citizens and residents of the United States) or Form RRB-1042S tax statement (for nonresident aliens of the United States). The total “net” SSEB portion of

tier 1 paid for the tax year is shown in Item 5 of the Form RRB-1099 or Form RRB-1042S. Beneficiaries use the “net” SSEB paid amount when determining their total taxable income for the tax year.

Beneficiaries and tax preparers should be advised to obtain the TXB-25 booklet entitled, Tax Withholding and Railroad Retirement Payments (For Use with Form RRB W-4P), and/or IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits, to compute the “base amount” used to determine the taxability of the SSEB portion of tier 1 and social security benefits.

**Pension Taxability** – The Non Social Security Equivalent Benefit (NSSEB) portion of tier 1, tier 2, VDB and supplemental annuity benefits are treated as private pensions for U.S. Federal income tax purposes. They are taxed as contributory pension amounts or noncontributory pension amounts. The NSSEB portion of tier 1, tier 2, VDB and supplemental annuity are the pension annuity components of the railroad retirement annuity. The NSSEB, tier 2, VDB and supplemental annuity payments, repayments and tax withholding amounts are shown on the Form RRB-1099-R tax statement (for both U.S. citizen and nonresident alien beneficiaries).

The **NSSEB and tier 2** (shown as the Contributory Amount Paid in Item 4 of Form RRB-1099-R) are the contributory pension amounts. Contributory pension amounts may be partially taxable or fully taxable depending on the presence and use of the employee contribution amount (shown in Item 3 of Form RRB-1099-R). The employee contribution amount is used to determine the nontaxable portion of the contributory amount paid.

**VDB and supplemental annuity** benefits are the noncontributory pension amounts. Noncontributory pension amounts are always fully taxable and do not involve the use of the employee contribution amount.

The **total gross pension paid** for the tax year is shown in Item 7, Total Gross Paid, of Form RRB-1099-R. This total is the cumulative sum of any contributory amount paid (Item 4), VDB (Item 5) and supplemental annuity (Item 6) benefits. Beneficiaries use the total gross pension paid amount when determining their total taxable income for the tax year. The total gross pension paid amount shown may be partially taxable or fully taxable depending on if the beneficiary is entitled to an employee contribution amount and if entitled, how the employee contribution amount is used for the contributory amount paid.

Beneficiaries and tax preparers should be advised to obtain IRS Publication 575, Pension and Annuity Income, and IRS Publication 939, General Rule for Pensions and

Annuities, for more information on the tax treatment of the contributory amount paid, VDB, supplemental annuity; how to use the employee contribution amount; expected return; and how to use the IRS life expectancy actuarial tables.

**Economic Recovery Payments (ERP)** are non-taxable and are not reported on the tax statements. The American Recovery and Reinvestment Act of 2009 (ARRA) provided for a one-time ERP of \$250.00. Although the one-time payment is non-taxable and will not be included on the annuitant's 2009 or 2010 tax statement, ERP information of all payments made has been provided to the Internal Revenue Service (IRS) for their administration of the Making Work Pay Credit (MWPC) provision of the ARRA. Annuitants who worked during 2009 or 2010 will need to report that they received the ERP when completing their federal income tax returns. Failure to do so will cause the IRS to reject the tax return. Annuitants seeking information regarding taxability issues should access the IRS website, [www.irs.gov/recovery](http://www.irs.gov/recovery).

**NOTE:** The IRS has advised that they have been contacted by tax preparers who have encountered problems when attempting to file tax returns on behalf of their clients. The problems apparently arise from discrepancies in the information they are reporting on behalf of clients, compared to the information that the IRS received from the various agencies that issued the ERPs. The common problems are:

- Offset of the ERP – The ERP was issued but withheld due to offset for a Federal or state debt. The ERP is still considered to have been paid to the annuitant. An offset can be confirmed by accessing the ERP TOP File on BoardWalk.
- Direct Deposit – The ERP was direct deposited into the annuitant's account. The annuitant does not recall having received the ERP. Payment issuance can be confirmed by checking the PREH 3275 screen.
- Non-receipt of ERP check payment – The ERP was issued via paper check and the annuitant does not recall having received the payment or, the payment was lost or stolen. THE ERP is still considered to have been paid to the annuitant. Report the claim of non-receipt to the Clerical Support Unit in TCIS.
- Multiple ERPs – The annuitant may have received the ERP on behalf of a dependent and correctly assumed it did not impact the MWPC, but then failed to alert the tax preparer that they (or a spouse) also received an ERP from the same or another agency. The SSA/VA ARRA Payments file on BoardWalk can be useful in determining whether a RRB annuitant could have been issued an ERP by one of the other agencies.

These problems have also led the IRS to conclude that they should be prepared for the possibility that inaccurate payment data was provided by the issuing agencies. While the IRS is not aware of any instances where the data provided by the RRB contained such errors, if such an error is identified, immediately notify Policy and Systems via the P&S Inquiry Mailbox. Since the erroneous information will cause the IRS to reject a tax return and the burden of proof rests with the taxpayer (annuitant), prepare a letter drafted on RRB letterhead addressed to the annuitant, confirming that no ERP was issued. Remember to check the SSA/VA ARRA Payments file on BoardWalk to be sure that a payment was not issued by one of the other agencies. IRS will use the letter as documentation for making a manual correction to their records that will allow the tax return to be processed.

**Tax Year** - A tax year covers monthly benefits paid for December of one calendar year through November of the next calendar year, and any one payment only (OPO) or accrual payments made in January through December of that next calendar year. For example, tax year 2006 covers recurring monthly payments for December 2005 through November 2006 and OPO or accrual payments dated January 1, 2006 through December 31, 2006. For taxation purposes, benefits are counted as paid when they are actually issued. In crediting repaid amounts to a tax year, benefits are counted as repaid for the year in which repayment is made and received at the RRB. The amounts shown on tax statements are based on a tax year as defined above; not on a calendar year. Year-end tax statement processing considers all payment, repayment and tax withholding totals for the tax year on the tax statement.

**Death Suppression Applied to Tax Statements** - The term "death suppression" is used to describe the practice of NOT reporting RRA payments after the month of death on tax statements of deceased beneficiaries when we know of the death before tax statements are issued. In order for death suppression to occur, the date of death must be in the tax database (i.e., the Beneficiary Identification/Information Data [PF16] tax screen or ANNTAXR tax record) before year-end tax statement issue (this means that the date of death must be in our records by the end of December of the current year since tax statements for the current tax year are produced and released in early January of the following year).

When death suppression occurs, we report on tax statements the monthly and accrual payments from the start of the tax year through the month of death. We do not report on tax statements any monthly and accrual payments issued after the month of death. Also, when death suppression reporting occurs, any recoveries of death suppressed paid amounts (i.e., payments made after date of death) are not reported as repayments on RRA tax statements. These recoveries are not reported on tax statements because their corresponding payments were not previously reported on tax statements. Refer to

TOM 20.10, RRA Taxation Guidelines and Principles – Payments, principle 14, and TOM 20.20, RRA Taxation Guidelines and Principles – Recoveries – Positive Repayment and Negative Payments, principles 1 through 4.

Death suppression only applies to the deceased beneficiary. It does not apply to any auxiliary beneficiaries still alive under the same claim number.

Example: John Smith was issued January through June recurring annuity payments (six months) and two separate accrual payments (April 15 and May 3) in the current tax year. In June, we were informed that John died in April of the current tax year. Based on his April date of death, John is not entitled to the May and June recurring annuity payments or his May accrual payment (all three payments are considered overpayments). John is not entitled to his May accrual payment since the payment was made after his month of death. For year-end tax statement processing, death suppression occurs since we have the date of death in our records at the time of current year tax statement issue. As a result, John's current tax year tax statements show his annuity payments for January through April (four, not six months) and the April accrual payment. Even though we issued the May and June annuity payments (fifth and sixth months) and May accrual payment, John's current tax year tax statements will not include those payments since those annuity payments were made after the month of death (April) and we have the date of death in our records. If the May and June annuity payments and May accrual payment are repaid to the RRB in the same current tax year either as returned checks or a cash refund, those repayments are not reported on the current tax year tax statements since the corresponding payments are not reported.

**Recipients of Tax Statements** - RRB tax statements are issued for a tax year to those who receive taxable railroad retirement annuity payments or those who repaid railroad retirement annuities or those who had taxes withheld during that same tax year. Therefore, RRB tax statements are issued (mailed) to retired (age or disabled) railroad employees; spouses, spouses with a child in care, divorced spouses, recipients of partition payments, and survivors (widow(er)s, estates, trusts, LA payees) of deceased railroad employees. All recipients of tax statements are categorized as either U.S. citizens or nonresident aliens of the United States. **Refer to the sections below concerning recipients of garnishment and partition payments.** See TOM 20.45, RRA Taxation Guidelines and Principles - Who Should Receive Tax Statements, for more information.

**Garnishments** - Railroad retirement annuities are reduced for two types of legal process garnishment payments: 1) alimony, and 2) child support. Railroad retirement annuities are taxable gross of (before) these garnishment deductions. We treat garnishment payments as nontaxable amounts. We do not perform tax withholding on

these amounts or issue RRA tax statements to garnishment payees. A bypass code of "008" may be shown on the garnishment payee's BENID/INFO (PF 16) general tax screen. Garnishment payment and deduction amounts are shown on the RECURRING (PF 20 and PF 21) and NONRECURRING (PF 22 and PF 23) general tax screens. See IRS Publication 504, Divorced or Separated Individuals, for information about the tax implications of alimony and child support garnishment payments to both the person garnished and the recipient of the garnishment.

**Alimony** - Garnishment payments awarded as alimony are taxable to the recipient. The IRS allows those individuals whose RRA annuity payments are garnished for alimony to take a deduction on their U.S. Federal income tax returns for the amounts garnished. Recipients of garnishment payments awarded as alimony are to include any garnishment payments received as taxable income.

**Child Support** - Garnishment payments awarded as child support are taxable to the person garnished.

**Partition** - Recipients of partition payments will receive tax statements reporting those payments since partition payments are considered taxable to the payee. However, the amount of the partition deduction from the employee's (payer) annuity is not included in the gross payment total reported on the employee's tax statements. Partition deduction amounts are shown on the RECURRING (PF 20) and NORECURRING (PF 22) general tax screens. Recipients of partition payments may elect tax withholding on those payments by filing the appropriate tax withholding election forms with the RRB. Refer to TOM 2215, Partitions.

**Mailing Address on Tax Statements** - The mailing address shown on any RRB issued tax statement is the address that is on RRB records at the time the tax statement is produced OR the address provided by the person requesting a tax statement at the time of request. Recipients of tax statements should review the mailing address shown on the tax statements. If the mailing address shown is incorrect or incomplete, the recipient should contact the RRB and provide the RRB with the correct and complete mailing address. Refer to TOM 307, Undeliverable Tax Statements, for information concerning undeliverable/returned tax statements.

**U.S. Taxpayer Identifying Number (TIN)** – A U.S. TIN is either a social security number (SSN), an individual taxpayer identification number (ITIN) or employer identification number (EIN). Generally, a SSN is assigned to a U.S. citizen; an ITIN is assigned to a nonresident alien (NRA) of the United States; and an EIN is assigned to a deceased beneficiary's estate or trust. The IRC requires a TIN to be shown (reported) on any RRB issued tax statement for identification purposes. However, we will issue

tax statements without a TIN if there is no TIN in the beneficiary's RRB records. Safety methods both at the RRB and with outside tax statement printing/mailing contractors are in place to insure that the TIN shown on RRB tax statements are safe and secure from misuse, theft or fraud. If a tax statement erroneously shows an incorrect TIN, refer to the section entitled, Incorrect Taxpayer Identifying Number (TIN) in TOM 325, Corrected Tax Statements.

**U.S. Social Security Benefits** – The RRB does NOT issue tax statements showing social security benefits paid, repaid or any related U.S. Federal income tax withholding from social security benefits. If a beneficiary received social security benefits during the tax year that were paid through the RRB (i.e., RRB has jurisdiction to pay), the beneficiary will receive tax statements showing social security benefits from the Social Security Administration (SSA); not the RRB. If the beneficiary did not receive their tax statement forms from the SSA, the beneficiary should contact their nearest SSA field office; not the RRB. Beneficiaries may contact the SSA on the Internet at [www.ssa.gov](http://www.ssa.gov) or call the SSA at 1-800-772-1213. In addition, any Medicare premiums deducted from social security benefits will NOT be included in the Medicare premium total amount shown on the RRB tax statements. Refer to TOM 300.15, Medicare Premium Total Shown on Tax Year 1997 And Later Tax Statements.

**Deductions** – Railroad annuity payments may include deductions. These deductions may be offset from the railroad annuity on a monthly basis and/or from an accrual payment that was paid during the tax year. The two most common types of deductions are for Part B Medicare premiums and U.S. Federal income tax withholding. For a complete list of deductions, refer to the explanation section for Form RRB-1099 and Form RRB-1042S, and the explanation section for Form RRB-1099-R shown below. In addition, refer to TOM 20.15, RRA Taxation Guidelines and Principles – Annuity Deductions (also see TOM 20.20, Recoveries), for information concerning annuity deductions.

**Nontaxable Payments and Repayments** – RRA tax statements only show (report) taxable payments and repayments. However, certain payments and repayments are not taxable and therefore are not shown on tax statements. These nontaxable payments and repayments include:

- Tier 1, tier 2, and VDB benefits paid for a period before December 1983;
- Tier 2 and VDB benefits repaid for a period before December 1983;
- Separation allowance lump sum amounts (SALSA);

- Residual lump sum (RLS) amounts;
- Lump Sum Death Payment (LSDP);
- Over-reimbursements;
- Garnishment payments;
- Tax refund payments of RRA taxes withheld during the “current” tax year; and
- 1974 RRA excess tier 2 tax refund payments (shown on paper or online G-90).
- One-time \$250.00 Economic Recovery Payments

**Types of Tax Statements** – The RRB categorizes beneficiaries by their citizenship status (i.e., country of citizenship). Beneficiaries are either citizens of the United States, or nonresident aliens of the United States. A nonresident alien (NRA) is an individual who is neither a citizen nor resident of the United States. Based on citizenship status, beneficiaries will receive U.S. citizen tax statements or NRA tax statements. Sample copies of the tax statements can be found on the RRB website, [www.rrb.gov](http://www.rrb.gov).

- Annual U.S. citizen tax statements issued by the RRB are reported on two RRA tax statement forms, Form RRB-1099 and/or Form RRB-1099-R, beginning with tax year 1984.
- Annual nonresident alien (NRA) tax statements issued by the RRB are reported on two RRA tax statement forms, Form RRB-1042S and/or Form RRB-1099-R, beginning with tax year 1984.

**Form RRB-1099 and Form RRB-1042S** – The Form RRB-1099 (for U.S. citizens) and Form RRB-1042S (for NRAs) tax statements document the Social Security Equivalent Benefit (SSEB) portion of tier 1 and overall minimum (O/M) special guaranty information (i.e., benefits paid, repaid, and the related U.S. Federal income tax withheld). These two types of payments are treated as social security benefits for U.S. Federal income tax purposes. Forms RRB-1099 and RRB-1042S also documents the workers’ compensation amount. Refer to the Workers’ Compensation Offset section below for more information. For NRAs, we show the country of legal residence and percentage rate of U.S. Federal income tax withholding (i.e., 0% or 15% or 30%) on Form RRB-1042S. Refer to IRS Publication 901, U.S. Tax Treaties, for information on tax treaties that may reduce or eliminate U.S. tax on benefits if a tax treaty exemption is claimed. In addition, refer to TOM 200, Tax Withholding, for information concerning NRA tax



withholding, tax treaties, and appropriate tax withholding election forms. Effective with tax year 1992 and later, Form RRB-1099 shows the U.S. Federal income tax withheld from the SSEB portion of tier 1. Prior to tax year 1992, any U.S. Federal income tax withheld from the SSEB was reported on Form RRB-1099-R.

There is one Copy C for Form RRB-1099. There are two copies for Form RRB-1042S (Copy C and Copy B). Copy C is the tax statement copy for the beneficiary. Copy B is the tax statement copy for the IRS and should be attached to the beneficiary's U.S. Federal income tax return(s). You can access the RRB website to view sample copies of the Form RRB-1099 and Form RRB-1042S tax statements. All information shown on original and corrected Form RRB-1099 and Form RRB-1042S tax statements are sent to the IRS.

The gross payment amounts shown on Form RRB-1099 (for citizens) and Form RRB-1042S (for NRAs) are "before" the following deductions:

- U.S. Federal income tax withholding;
- Part B, C, D and/or B Income Related Monthly Adjustment Amount (IRMAA) Medicare premiums;
- Legal process garnishment payments;
- Legal process assignment payments;
- Workers' Compensation offset in the SSEB portion of tier 1 benefit;
- Recovery of Railroad Unemployment Insurance Act (RUIA) benefits received while awaiting payment of the Railroad Retirement Act (RRA) annuity;
- Recovery of current year and/or prior year overpayments of the SSEB portion of tier 1 benefit.

The gross payment amounts shown on Form RRB-1099 (for citizens) and Form RRB-1042S (for NRAs) are "after" the following deductions:

- Social security benefits;
- Age reduction;
- Public service pensions or Public disability benefits;

- Dual railroad retirement entitlement under another RRB claim number;
- Work deductions;
- Actuarial adjustment;
- Annuity waiver;
- Legal process partition payments.

Refer to IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits, for additional information concerning Form RRB-1099 and/or Form RRB-1042S. This publication contains explanations of box items and illustrations of these tax statements, and Form SSA-1099/Form SSA-1042S tax statements used by the Social Security Administration (SSA). In addition, refer to IRS Publication 519, U.S. Tax Guide for Aliens, for detailed information on filing requirements for aliens (NRAs) and Form RRB-1042S.

**Workers' Compensation Offset** – The Internal Revenue Code (IRC) requires the RRB to report any workers' compensation offset amounts by which the SSEB tier 1 benefits are reduced during the tax year on Form RRB-1099 (for U.S. citizens) or Form RRB-1042S (for NRAs) tax statements. We include workers' compensation offset amount in the gross SSEB payment amounts reported in Box 3 of Form RRB-1099 (or Form RRB-1042S). The IRC further requires the RRB to separately report the dollar amounts of any workers' compensation offsets included as gross SSEB payments on Forms RRB-1099 or RRB-1042S. We report workers' compensation offset amounts in Box 6 of Forms RRB-1099 or RRB-1042S.

The IRC requires the SSA to report any workers' compensation offset amounts by which SSA benefits are reduced during the tax year as gross SSA payments on Form SSA-1099 (for U.S. citizens) or Form SSA-1042S (for NRAs) tax statements. The IRC further requires SSA to report the dollar amount of any workers' compensation offset amounts included as gross SSA payments on Forms SSA-1099 or SSA-1042S.

See IRC Section 86(d)(3) for the definition of RRB tier 1 payments and SSA benefit payments as including any workers' compensation offset amounts by which these payments were reduced. See IRC Section 6050F(a)(1)(C) for the requirement that the RRB and SSA report on our annual tax statements the amounts of workers' compensation offset amounts included as gross payments on the tax statements. Therefore, both agencies (RRB and SSA) are required by the Internal Revenue Code to report workers' compensation offset amounts on tax statements.

**Form RRB-1099-R** – The Form RRB-1099-R tax statement documents the Non-Social Security Equivalent Benefit (NSSEB) portion of tier 1, tier 2, vested dual benefit (VDB) and supplemental annuity information (i.e., benefits paid, repaid, and the related U.S. Federal income tax withheld). Form RRB-1099-R is used for both citizen and NRA beneficiaries. These payments are treated as private pensions for U.S. Federal income tax purposes. The NSSEB and tier 2 are considered contributory pension amounts and are shown as a single combined amount in the Contributory Amount Paid box item on the Form RRB-1099-R tax statement. The VDB and supplemental annuity are considered noncontributory pension amounts and are shown as separate box items on the Form RRB-1099-R tax statement. Form RRB-1099-R also documents the employee contribution amount. The contributory amount paid and employee contribution amount are used in conjunction with each other. Refer to the Contributory Amount Paid section and the Employee Contribution section below for additional information.

For NRAs, we show the country of legal residence and percentage rate of U.S. Federal income tax withholding (i.e., 0% or 15% or 30%) on Form RRB-1099-R. Refer to IRS Publication 901, U.S. Tax Treaties, for information on tax treaties that may reduce or eliminate U.S. tax on benefits if a tax treaty exemption is claimed. In addition, refer to TOM 200, Tax Withholding, for information concerning NRA tax withholding, tax treaties, and appropriate tax withholding election forms.

All the tax information formerly contained on Form RRB-W-2P is on Form RRB-1099-R effective with 1991 tax statements released in January 1992. The G-1099 forms released in years prior to 1984 as statements of supplemental annuities paid were obsolete effective with tax year 1984. Supplemental annuity tax information is included on Form RRB-1099-R effective with tax year 1984.

NOTE: Form RRB-1099-R (12-92) stand alone tax statement is ONLY used for tax years 1991 and earlier duplicate tax statement requests. Form RRB-1099-R (12-92) is NO LONGER used for any requests for original and/or corrected tax statements for tax years 1991 or earlier, and any requests for duplicate tax statements for tax years 1992 and later.

There are three copies for Form RRB-1099-R (Copy B, Copy C and Copy 2). Copy C is the tax statement copy for the beneficiary. Copy B is the tax statement copy for the IRS and should be attached to the beneficiary's U.S. Federal income tax return(s). Copy 2 is the tax statement copy that should be attached to the beneficiary's state, city or local income tax return(s) if required. You can access the RRB website to view a sample of the Form RRB-1099-R tax statement. All information shown on original and corrected Form RRB-1099-R tax statement is reported to the IRS.

The gross payment amounts shown on Form RRB-1099-R are “before” the following deductions:

- U.S. Federal income tax withholding;
- Part B, C, D and/or B Income Related Monthly Adjustment Amount (IRMAA) Medicare premiums;
- Legal process garnishment payments;
- Legal process assignment payments;
- Recovery of Railroad Unemployment Insurance Act (RUIA) benefits received while awaiting payment of the Railroad Retirement Act (RRA) annuity;
- Recovery of prior year overpayments of the NSSEB, tier 2, VDB, and/or supplemental annuity benefits.

The gross payment amounts shown on Form RRB-1099-R are “after” the following deductions:

- Social security benefits;
- Age reduction;
- Public service pensions or Public disability benefits;
- Dual railroad retirement entitlement under another RRB claim number;
- Work deductions;
- Actuarial adjustment;
- Annuity waiver;
- Legal process partition deductions;
- Recovery of a known current year overpayment of NSSEB, tier 2, VDB, and/or supplemental annuity benefits.

Refer to IRS Publication 575, Pension and Annuity Income, for additional information concerning Form RRB-1099-R. This publication also contains explanations of box items

and an illustration of the Form RRB-1099-R tax statement. In addition, refer to IRS Publication 939, General Rule for Pensions and Annuities. Lastly, refer to IRS Publication 519, U.S. Tax Guide for Aliens, for detailed information on filing requirements for aliens (NRAs).

**Contributory Amount Paid** – This amount is the gross amount of any NSSEB portion of tier 1 and tier 2 benefits paid in the tax year, LESS any NSSEB and tier 2 repayments made in that same tax year and attributed to that same tax year. Any NSSEB and tier 2 repayments made in an earlier tax year or for an unknown tax year are not included in the contributory amount paid. The NSSEB and tier 2 are contributory pension amounts and are shown in Box 4, Contributory Amount Paid, on Form RRB-1099-R. The contributory amount paid is considered as income and is reported to the IRS.

Amounts shown on the Form RRB-1099-R tax statement are treated like private pensions and taxed either as contributory pension amounts or noncontributory pension amounts. Contributory pension amounts may be fully taxable or partially taxable depending on the presence and use of the employee contribution amount. VDB and supplemental annuities are considered noncontributory pension amounts. Noncontributory pension amounts are always fully taxable and do not involve use of the employee contribution amount.

**The contributory amount paid and the employee contribution amounts are used in conjunction with each other. To get a full understanding, you should read both the Contributory Amount Paid sections and the Employee Contribution sections (shown below).**

If an employee contribution amount is shown on the beneficiary's Form RRB-1099-R, the beneficiary may be eligible to use some or the total employee contribution amount shown to compute the nontaxable (tax-free) amount of the contributory amount paid. This may reduce the taxability of the contributory amount paid and in turn the amount of taxable income to report on the beneficiary's income tax return(s). If an employee contribution amount is NOT shown on the beneficiary's Form RRB-1099-R, the beneficiary is NOT eligible to use or share the employee contribution amount and the beneficiary's contributory amount paid and total gross paid are fully taxable.

**The annuity beginning date (ABD) determines if the contributory amount paid is fully taxable or if the nontaxable amount of the contributory amount paid is partially taxable for the life of the beneficiary or for a specified period of time.**

- For beneficiaries with annuity beginning dates **before July 2, 1986**, the contributory amount paid (NSSEB and/or tier 2) is fully taxable. These annuitants

cannot use the employee contribution amount (even if shown on Form RRB-1099-R) to compute a nontaxable amount of their contributory amount paid because their employee contribution amount has been fully recovered. Therefore, the total gross pension paid in Box 7 of Form RRB-1099-R is fully taxable.

- For beneficiaries with annuity beginning dates **from July 2, 1986 through December 31, 1986**, the contributory amount paid is partially nontaxable for the life of the beneficiary. These annuitants may use some, or all of the employee contribution amount to compute the nontaxable amount of their contributory amount paid. Once that nontaxable amount is computed, it does not need to be recomputed and can be used for each tax year unless there is a change in the employee contribution amount, annuity beginning date, date of birth used to determine life expectancy, or the number of eligible beneficiaries receiving contributory amounts paid (refer to the section entitled, Changes to the Employee Contribution Amount, shown below). Therefore, the total gross pension paid in Box 7 of Form RRB-1099-R may be partially taxable.
- For beneficiaries with annuity beginning dates **effective January 1, 1987 and later**, the contributory amount paid is partially nontaxable for a specified period of time based on life expectancy as determined by IRS actuarial tables. These beneficiaries may use some or the total employee contribution amount to compute the nontaxable amount of their contributory amount paid. Once that nontaxable amount is computed, it does not need to be recomputed and can be used for each tax year unless there is a change in the employee contribution amount, annuity beginning date, date of birth used to determine life expectancy, or the number of eligible beneficiaries receiving contributory amounts paid (refer to the section entitled “Changes to the Employee Contribution Amount” shown below). Therefore, the total gross paid in Box 7 of Form RRB-1099-R may be partially taxable. However, once the specified life expectancy is met, the employee contribution is considered fully used up, and the contributory amount paid and total gross pension paid are fully taxable.
- The contributory amounts paid of **disabled employee beneficiaries UNDER minimum retirement age are fully taxable** and these beneficiaries cannot use the employee contribution amount. Therefore, the total gross pension paid in Box 7 of Form RRB-1099-R is fully taxable. Minimum retirement age is generally the age at which individuals could retire based on age and service (for example, age 60 with 30 years of railroad service or age 62 with less than 30 years of railroad service). However, once the disabled employee beneficiary reaches minimum retirement age, the beneficiary may use the employee contribution amount shown on his or

her Form RRB-1099-R to compute a nontaxable amount of their contributory amount paid.

Since 1993 (tax year 1992), Form RRB-1099-R shows the total amount of any contributory amount paid (NSSEB and/or tier 2) during the tax year. **The RRB does NOT calculate the nontaxable amount of the contributory amount paid for beneficiaries. It is up to the beneficiary to determine the taxable and nontaxable (tax-free) amounts of the contributory amount paid using the employee contribution amount.** Beneficiaries should contact the IRS or their own tax preparer for assistance in calculating the nontaxable amount of their contributory amount paid. For more information on the tax treatment of the contributory amount paid, VDB, supplemental annuity, and the employee contribution amount, and how to use the IRS actuarial tables, refer to IRS Publication 939, General Rule for Pensions and Annuities, and IRS Publication 575, Pension and Annuity Income.

**Employee Contribution Amount** – This is the amount of railroad retirement payroll taxes paid by the employee that exceeds the amount that would have been paid in social security payroll taxes if the employee's railroad service had been covered under the Social Security Act. The employee contribution amount is reported to the IRS and is shown in Box 3, Employee Contribution, on the Form RRB-1099-R tax statement. The employee contribution amount is shown on the Contribution and Recovered Data general tax screen (CONTRI/RECV, PF 17). The IRS refers to this amount as an employee's cost (investment in the contract). Employee contributions are not a payment or income received during the tax year. Only employee and survivor beneficiaries receive an employee contribution amount on their Form RRB-1099-R. Spouse, divorced spouse and legal process partition payees do not receive nor can share an employee contribution amount. If an employee contribution amount is shown on a beneficiary's Form RRB-1099-R, the beneficiary may be eligible to use the employee contribution amount. If an employee contribution is not shown on a beneficiary's Form RRB-1099-R, the beneficiary is not eligible to use or share any employee contribution amount.

SSEB, VDB and supplemental annuity benefits do not involve use of the employee contribution amount.

The contributory amount paid (NSSEB and tier 2) and the employee contribution amount are used in conjunction with each other. To get a full understanding, you should read both the Contributory Amount Paid sections (shown above) and the Employee Contribution sections.

**Significance of the Employee Contribution Amount** - The contributory amount paid is considered income and is reported to the IRS. This amount is shown in Box 4, Contributory Amount Paid, on the Form RRB-1099-R tax statement. The contributory amount paid is either fully or partially taxable depending on whether the employee contribution amount has been used to compute a nontaxable (tax-free) portion of the contributory amount paid. If no employee contribution amount is shown on Form RRB-1099-R, then the contributory amount paid (Box 4) and total gross pension paid amount (Box 7) on Form RRB-1099-R are fully taxable.

**The use and recovery of the employee contribution amount is important for beneficiaries since it affects the amount of taxable income to be reported on income tax returns for a tax year. There is a tax savings advantage in using (recovering) employee contributions since it will reduce the taxability of the contributory amount paid and in turn the amount of taxable income to report on income tax return(s).** Beneficiaries may need to share the employee contribution amount (see the section below). Beneficiaries should refer to IRS Publication 575, Pension and Annuity Income, and Publication 939, General Rule for Pensions and Annuities, for more information concerning the tax treatment of the contributory amount paid and use of the employee contribution amount.

**Sharing of the Employee Contribution Amount** - The employee contribution amount shown on Form RRB-1099-R is attributable to the railroad account number. This means that the employee contribution amount must be shared by all eligible beneficiaries currently receiving a contributory amount paid under that same railroad account number.

- If an employee contribution amount is shown on the Form RRB-1099-R, the beneficiary is an **eligible beneficiary** who may use all or some (share) of the employee contribution amount shown to compute the nontaxable portion of their contributory amount paid. Therefore, the contributory amount paid and total gross paid shown on Form RRB-1099-R may be partially taxable.
- If an employee contribution amount is not shown on the Form RRB-1099-R or the beneficiary is a spouse or divorced spouse or a legal process partition payee, the beneficiary is **not an eligible beneficiary** and cannot use or share the employee contribution amount. Therefore, the contributory amount paid and total gross pension paid shown on Form RRB-1099-R are fully taxable.

When more than one beneficiary is or was entitled to a contributory amount paid under the same railroad account number, any eligible beneficiary may not use the entire employee contribution amount shown on their Form RRB-1099-R for themselves. They



must first determine the amount of the total employee contribution amount they are individually entitled to use. The RRB does NOT calculate this information for beneficiaries. That means the beneficiaries (or their tax preparers) must determine:

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

**Changes to the Employee Contribution Amount** - The employee contribution amount is based on the latest railroad service and earnings information available on the RRB's records at the time of year-end tax statement processing. Railroad service and earnings information (and the corresponding employee contribution amount) often changes in the first year after an employee retires from railroad service. That is when the employee's final railroad service and earnings information is furnished to the RRB by his or her employer. Each December, we run a mass adjustment operation called, the SCORE Run that updates the employee contribution amount if earnings information changes.

The SCORE Run is performed after the first post period in December. The updated employee contribution amount from the December SCORE Run is used in year-end tax statement processing in January. This means that the employee contribution amount shown on the automated original Form RRB-1099-R released in January will show the employee contribution amount determined from the previous December SCORE Run. Only eligible beneficiaries will show an employee contribution amount on their Form RRB-1099-R. At the time of Form RRB-1099-R tax statement issue, the employee contribution amount reported on that tax statement is the latest amount shown on the tax database. The updated employee contribution amount may increase or decrease from the previous amount. As a result, the employee contribution amount shown on the most recent Form RRB-1099-R may have increased or decreased from a previously issued Form RRB-1099-R. The previously issued Form RRB-1099-R is still correct since that was the employee contribution amount shown in the tax database at the time of tax statement issue. However, the latest employee contribution amount now shown should be used for the current tax year and for prior tax years.

**NOTE:** The Recalculate for Service and Compensation Updated to EDM (RESCUE) system was developed in 2006. RESCUE updates beneficiaries' records based on the receipt of additional earnings and may update (change) the employee contribution amount. RESCUE was first run in July, 2006. Due to additional earnings, RESCUE may update the employee contribution amounts for cases in which the employee

contribution amount was constant for years. RESCUE runs may update the employee contribution amount in the tax database (and general tax screens). Therefore, the employee contribution amount may be updated (changed) either by the SCORE run in December or any RESCUE run during the year.

Any change in (1) an employee contribution amount; (2) any eligible beneficiary's date of birth used to determine life expectancy or (3) any eligible beneficiary's railroad retirement annuity beginning date (ABD) will affect the nontaxable amount of the contributory amount paid. These changes are fully retroactive to the beneficiary's correct ABD.

In addition, any change in the total number of eligible beneficiaries receiving contributory amounts paid will affect the nontaxable amounts of these beneficiaries. This change is retroactive to the date on which the number of eligible beneficiaries changed.

Since changes are retroactive, the nontaxable amount of the contributory amount paid should be recomputed. This could affect the taxable amounts reported to the IRS on prior income tax returns. Generally, an increase in the employee contribution amount is advantageous, as it will yield a larger nontaxable amount. However, a decrease in the employee contribution amount may be disadvantageous since it may result in an increased tax liability. In any case, beneficiaries should determine if any change in their employee contribution amount would require them to file original or amended Federal income tax returns for prior tax years. As previously stated, the RRB does NOT calculate the nontaxable amount of the contributory amount paid for beneficiaries. It is up to the beneficiaries (or their tax preparers) to determine the taxable and nontaxable (tax-free) amounts of the contributory amount paid using the employee contribution amount.

NOTE: Manually produced original and corrected Form RRB-1099-R tax statements released throughout the calendar year for any tax year should use the latest updated employee contribution amount as shown on the Contribution and Recovered Data (CONTRI/RECV, PF 17) general tax screen. This only applies to eligible beneficiaries entitled to receive an employee contribution amount. There is wording on the back of the citizen and NRA tax statement mailers and TXL -1099-R general explanation letter which informs beneficiaries that the employee contribution amount shown is the latest reported employee contribution amount. The wording also states that the employee contribution amount shown is retroactive and to use the latest reported employee contribution amount on the most recent Form RRB-1099-R when filing and/or amending income tax returns. Generally, we do not identify cases where only the employee

contribution amount changed and issue corrected Form RRB-1099-R with the current employee contribution amount.

**Medicare Premium Total** - On the RRB tax statement forms (Form RRB-1099; Form RRB-1042S; Form RRB-1099-R) prior to tax year 1997, there was no box item on the tax statements that reported beneficiaries' total Part B Medicare premiums deducted from their railroad retirement annuity payments. However, effective with tax year 1997 through 2010 tax statement forms (Form RRB-1099; Form RRB-1042S; Form RRB-1099-R), there is a separate box item on each tax statement entitled, MEDICARE PREMIUM TOTAL. An amount shown in this new box item represents the beneficiaries' total Part B Medicare premiums deducted from their railroad retirement annuity payments during the tax year. Effective with tax year 2007 and later, the Medicare premium total amount includes the total Medicare Part B and/or B Income Related Monthly Adjustment Amount (IRMAA) withheld from the beneficiaries' annuity payments. Effective with tax year 2011 and later, the Medicare premium total amount includes the total Medicare Part B, C, D and/or B IRMAA premiums withheld from the beneficiaries' annuity payments. The Medicare premium total is shown in box 11 of the Form RRB-1099; box 13 of the Form RRB-1042S; and box 12 of the Form RRB-1099-R. The Medicare premium total is for informational purposes only. The RRB is not legally obligated by IRS to report the Medicare premium total on RRB tax statements.

However, if beneficiaries' Medicare premiums were deducted from their social security benefits; paid by a third party (i.e., state); or paid by direct billing (quarterly or annual), the RRB will not report those Medicare premiums in the MEDICARE PREMIUM TOTAL box item on the tax statements since information concerning those premiums is not available in the tax database. In addition, Medicare premium refunds are not included into the Medicare premium total reported on the tax statements.

If Medicare premiums are deducted from railroad retirement annuity payments, then the Medicare premium total will normally be shown on Form RRB-1099 (for citizens) and Form RRB-1042S (for NRAs). However, if the beneficiary is not required to receive a Form RRB-1099 or Form RRB-1042S (i.e., beneficiary is not receiving, repaying, and/or had tax withheld from SSEB benefits), then the Medicare premium total will be reported on Form RRB-1099-R since that is the only tax statement that the beneficiary will receive. For more information concerning the Medicare Premium Total, refer to TOM 300.15, Medicare Premium Total shown on Tax Year 1997 and Later Tax Statements.

NOTE: If the beneficiary received social security benefits that were paid through the RRB, the beneficiary should receive Form SSA-1099 (for citizens) or Form SSA-1042S (for NRAs) and Notice 703 from the Social Security Administration (SSA). If the

beneficiary does not receive the SSA forms, the beneficiary should contact the SSA not the RRB for these forms.

**Release of Original Tax Statements** - The IRC requires that "original" Forms 1099, 1099-R and 1099C tax statements be furnished to recipients by January 31 of the year following the close of the tax year. In addition, the IRC requires that "original" Form 1042S tax statements be furnished to recipients by March 15 of the year following the close of the tax year. Information shown on original tax statements is reported to the IRS by the RRB each year (usually in February and August). In addition, all original tax statements are uploaded to the Statement general tax screen (PF 15) for reference. There are two ways to release original tax statements: 1) Automated Tax Statement Mailers, and 2) Manually Produced Tax Statements. Refer to TOM 305.05, Release of Original Tax Statements, and TOM 305.10, Due Date, for more detailed information.

- Automated Original Tax Statement Mailers - The color ink automated annual tax statement mailer packets are produced and issued by the outside printing/mailing contractor. These mailer packets contain the "original" tax statements and the vast majority of our beneficiaries receive the mailers each January. These mailers measure 8.5 x 14 inches in length and are in color. The original tax statements are shown on the front of the automated mailer. The General Information and Explanation of Tax Statement Box Items sections are shown on the back of the automated mailer. Information shown on the automated original tax statements is reported to the IRS by the RRB each year (usually in February). No letters are released with the automated tax statement mailers since all necessary information is contained on the back of those mailers. You may view samples of the current tax year original citizen and NRA tax statement mailers by accessing the RRB website, [www.rrb.gov](http://www.rrb.gov).
  - The two automated annual citizen tax statements are combined into a single mailer packet, Form RRB-1099/1099-R. This mailer packet contains a blue and white Copy C of Form RRB-1099, and green and white Copy B, C and 2 of Form RRB-1099-R.
  - The two automated annual NRA tax statements are combined into a single mailer packet, Form RRB1042S/1099-R. This mailer packet contains black and white Copies B and C of Form RRB-1042S, and green and white Copy B and C of Form RRB-1099-R.
- Manually Produced Original Tax Statements - The manually produced "original" tax statements are issued by Tax Clerical and Imaging Section (TCIS). These manually produced original tax statements are personal computer (PC) generated,

measuring 8.5 x 11 inches in length, and are in black and white ink color. The majority of these original tax statements are for the cases that were bypassed from automated tax statement processing (refer to TOM 305.15, Statement Extract/Year End Processing). Always use the latest correct information on the manually produced original tax statements. Information shown on these manually produced original tax statements is reported to the IRS by the RRB each year (usually in August). A TL-266 letter and the appropriate TXL letter are sent with the manually produced original tax statement to provide tax information for the beneficiary. The TL-266 letter informs beneficiaries that the enclosed tax statements are original tax statements. In lieu of the TL-266 letter, a special customized explanation letter may be substituted. There are four TXL Letters (TXL-1099, TXL-1042S, TXL-1099-R, and TXL-1099-R 1991) that provide general information and explanations for each box item on a particular tax statement. The corresponding TXL letter is released with the original tax statement (example, TXL-1099 is released with the original Form RRB-1099 tax statement). See TOM 315.15, TXL Letters – TXL-1099, TXL-1042S, TXL-1099-R and TXL-1099-R 1991, for more information concerning the TXL letters.

**Release of Corrected Tax Statements** – The RRB issues “corrected” Forms RRB-1099, RRB-1042S, RRB-1099-R, and IRS Form 1099C throughout the calendar year. Corrected tax statements have no due date to release since they are issued and released throughout the year as errors, adjustments and/or discrepancies are identified and corrected. Always use the latest corrected information on the corrected tax statements. Information shown on corrected tax statements is reported to the IRS by the RRB each year (usually in August). In addition, all corrected tax statements are uploaded to the Statement general tax screen (PF 15) for reference. The box labeled, CORRECTED, is checked on the paper corrected tax statement. A TL-265 letter and the appropriate TXL letter are sent with the corrected tax statement to provide tax information for the beneficiary. The TL-265 letter informs beneficiaries that the enclosed tax statements are corrected tax statements. In lieu of the TL-265 letter, a special customized explanation letter may be substituted. There are four TXL letters (TXL-1099, TXL-1042S, TXL-1099-R, and TXL-1099-R 1991) that provide general information and explanations for each box item on a particular tax statement. The corresponding TXL letters are released with the corrected tax statement (example, TXL-1099 is released with the corrected Form RRB-1099 tax statement). See TOM 315.15, TXL Letters – TXL-1099, TXL-1042S, TXL-1099-R and TXL-1099-R 1991, for more information concerning the or TXL letters. Refer to TOM 325, Corrected Tax Statements, for more information.

**Important IRS Phone Numbers and Website** – Beneficiaries can get help with unresolved tax issues, order free IRS forms and publications, ask tax questions, and get

more information from the IRS. Beneficiaries can call or visit their local IRS field office listed in the blue pages of their telephone directory. IRS phone and fax numbers, and websites are also found at the back of many IRS publications and forms. In addition, beneficiaries may visit the IRS on the Internet at [www.irs.gov](http://www.irs.gov). Beneficiaries can call the IRS toll free at the following general phone numbers:

- 1-800-829-3676, to request free IRS forms, instructions and publications (these items can be downloaded from the IRS website);
- 1-800-829-1040, to ask the IRS specific tax related questions;
- 1-800-829-4059, to ask tax questions or to order forms and publications if beneficiary has access to TYY/TDD equipment;
- 1-267-941-1000 (not toll free), to ask the IRS tax related questions for those who are nonresident aliens or who reside outside of the United States;
- 1-877-777-4778, to contact the taxpayer advocate (the taxpayer advocate independently represents an individual's interests and concerns within the IRS by protecting the individual's rights and resolves problems with the IRS that have not been resolved, corrected or successfully handled); and/or
- 1-800-829-4477, to check the status of the income tax refunds.

**Important IRS Publications and Forms (Reference Sources)** - IRS has several reference sources to help determine taxable amounts and what amounts to show on income tax returns. IRS publications and forms are free for the public and can be downloaded from the IRS website ([www.irs.gov](http://www.irs.gov)) or you may call IRS at 1-800-829-3676 (see above) to request free copies. In addition, the RRB website has links to the IRS website for the following IRS publications and forms.

- IRS Publication 575, Pension and Annuity Income, is the IRS booklet that provides general information concerning the taxability of the pension payments (NSSEB portion of tier 1, tier 2, VDB and supplemental annuity), use of the employee contribution amount, and Form RRB-1099-R, as well as an illustration of the tax statement.
- IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits, is the IRS booklet that provides general information concerning the taxability of SSEB portion of tier 1 benefits and social security benefits, and Form RRB-1099,

Form RRB-1042S, Form SSA-1099 and Form SSA-1042S, as well as illustrations of these tax statements.

- IRS Publication 939, General Rule for Pensions and Annuities, is the IRS booklet used in conjunction with IRS Publication 575 and provides information concerning the tax treatment of the contributory amount paid (NSSEB and/or tier 2), the use (recovery) of the employee contribution amount, IRS actuarial tables, and how to use those actuarial tables to determine taxable and nontaxable amounts of the contributory amount paid.
- Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, is the IRS form used by individuals to request a tax return filing extension from the IRS.

**Important SSA Phone Number and Website** - Beneficiaries can contact the SSA for information concerning social security benefits and/or SSA tax forms (Form SSA-1099 or Form SSA-1042S). Beneficiaries may call the SSA toll free at 1-800-772-1213 or visit the SSA on the Internet at [www.ssa.gov](http://www.ssa.gov).

### **300.10 TB-85 Booklet, Information About The Taxation Of Railroad Retirement Annuities**

The Taxation Planning Group (TPG) recommended several initiatives be implemented to improve taxation reporting and accounting. One of the TPG initiatives is to provide additional information at initial retirement explaining the taxability of annuities and how annuity adjustments can affect tax liability.

To implement this initiative, Policy and Systems-Payment Analysis and Systems (PAS) developed a general Railroad Retirement Act (RRA) taxation booklet available for use January 1, 1997, and later. The booklet TB-85, Information About the Taxation of Railroad Retirement Annuities, details the taxability of, and U.S. Federal income tax withholding on, railroad retirement annuities, accruals and overpayments that our beneficiaries receive.

The main purpose for the TB-85 booklet is to provide one source where beneficiaries, field office personnel, tax preparers and interested parties can obtain answers to questions concerning the taxation of railroad retirement benefits.

When annuitants file for a railroad retirement annuity field office personnel should give them a copy of TB-85. In addition, each field office should maintain a small supply of these booklets for any requests that they may receive throughout the year.

The TB-85 will be reviewed and/or revised each year (if necessary) by P&S – PAS.

### **300.15 Medicare Premium Total Shown On Tax Year 1997 And Later Tax Statements**

Medicare premium totals deducted from the railroad retirement benefit are reported on the RRB tax statements (Form RRB-1099; Form RRB-1042S; Form RRB-1099-R) for informational purposes only. We do not report Medicare premiums deducted from the annuitant's social security benefits on the RRB tax forms. Use Form Letter RL-376. Form Letter RL-376 is available on RRAILS and includes a paragraph select item which reads:

*Your Medicare Part B premiums are being deducted from the social security portion of your monthly payment. The premium deduction will not appear on your RRB-1099 or SSA-1099 tax forms.*

*Below is the information you requested:*

*MEDICARE PART B PREMIUM DEDUCTIONS FOR TAX YEAR \*\*\*\*  
\$X,XXX.xx PER MONTH x \*\*\* MONTHS = \$X,XXX.xx*

TOM 300.15 is divided into the following five sections:

- A Background;
- B. Types of Medicare Premiums shown on RRB tax statements;
- C. Types of Medicare Premiums NOT shown on RRB tax statements;
- D. Medicare Premium Refunds NOT included into Medicare Premium Total;
- E. Impact of Medicare Premium Total on Duplicate and Corrected RRB Tax Statements.

#### **A. Background**

Beneficiaries want to know the amount of Medicare premiums that they paid during the tax year for their own benefit and/or to help them determine (compute) the amounts to report on their personal income tax returns. Field office personnel want to reduce beneficiaries' inquiries concerning the Medicare premium total paid during the tax year. One of the most common requests that



RRB headquarters received each year from both field office personnel and beneficiaries was to show on the RRB tax statement forms the total Medicare premiums that were deducted from beneficiaries' railroad retirement annuities during the tax year.

The request (reasons) to include a separate box item for Medicare on the RRB tax statements is based on the following:

- Generally, the amounts shown on the RRB tax statements are greater than the amounts that the beneficiaries received during the tax year so beneficiaries conclude that they are due additional money from the RRB. Beneficiaries come to this conclusion because they re-verify the amounts shown on their tax statements by comparing the total shown on their tax statements to the cumulative total actually received. The cumulative total is determined by adding up the amounts shown on their annuity checks (or bank statements) for a tax year. Beneficiaries may not realize that the amount shown on their annuity checks is in the "net" amount (i.e., amounts after certain annuity deductions). However, the amounts reported on the tax statements are in the "gross" amount (i.e., amounts before certain annuity deductions). The most common annuity deduction for railroad retirement annuities is the premium for Medicare.

Field office personnel receive inquiries from beneficiaries asking why the amounts shown on the tax statements differ from the amounts that the beneficiary actually received, i.e., tax statement total versus checks/bank statements total. Field office personnel investigate the amount difference. If it is determined that the difference is due to the Medicare premiums, field office personnel explain to the beneficiaries that the difference is the total amount of Medicare premiums paid during the year. In addition, field office personnel explain that the amounts shown on the tax statements are before the deduction for Medicare.

Example: In 2006, Mr. Jones is entitled to a railroad retirement benefit of \$1,000.00 per month (\$500.00 SSEB portion of tier 1 plus \$257.00 NSSEB portion of tier 1 plus \$100.00 tier 2 plus \$100.00 VDB plus \$43.00 supplemental annuity). The Contributory Amount Paid is the sum of the NSSEB and tier 2 benefits. Thus, the Contributory Amount Paid is \$357.00 per month (\$257.00 NSSEB plus \$100.00 tier 2). Mr. Jones receives Medicare and \$88.50 is deducted from his monthly railroad retirement benefit in 2006. Therefore, Mr. Jones' monthly annuity check is in the "net" amount of \$ 911.50 (\$1,000.00 minus \$88.50) for 2006.

For tax year 2006, Mr. Jones received in January, 2007, a Form RRB-1099/1099-R tax statement mailer. Forms RRB-1099 and RRB-1099-R tax statements are shown on this mailer. On his Form RRB-1099, we reported a SSEB gross total of \$6,000.00 (\$500.00 x 12 months). On his Form RRB-1099-R, we reported the following gross totals: \$4,284.00 Contributory Amount Paid (\$357.00 x 12 months); \$1,200.00 VDB (\$100.00 x 12 months); and \$516.00 supplemental annuity (\$43.00 x 12 months).

If Mr. Jones decides to re-verify the amounts shown on his tax statements, he will compare the amounts shown on the tax statements to the cumulative sum of the annuity checks that he received during the year. Mr. Jones will add up the amounts on the tax statements and obtain a cumulative total of \$12,000.00 (\$6,000.00 SSEB + \$4,284.00 Contributory Amount Paid + \$1,200.00 VDB + 516.00 supplemental annuity.)

Mr. Jones will add up the amounts from the 12 annuity checks that he received and obtain a cumulative total of \$10,938.00 (\$911.50 x 12 checks).

Mr. Jones will contact the RRB (i.e., field offices) asking why there is a discrepancy of \$1,062.00 (\$12,000.00 minus \$10,938.00) between the total shown on his tax statements and the total derived from his annuity checks. In addition, Mr. Jones will ask if he is due \$1,062.00 from the RRB. Field office staff can check to see if Mr. Jones is receiving Medicare by looking at the Statement Supporting Data (STBRK) (PF15 then PF13) general tax screen. This general tax screen has a screen item entitled, SMIB PREMIUM TOTAL. An amount shown in the SMIB PREMIUM TOTAL is the Medicare premium total deducted from railroad retirement benefits since the tax database stores this information. In this example, \$1,062.00 will be shown in the SMIB PREMIUM TOTAL. In addition, field office staff can view the Recurring Payment Summary (REC:SUM) (PF 21) and the Non-Recurring Payment Summary (NON-REC:SUM) (PF 23) general tax screens for the tax year in question. Both of these screens have a screen item entitled, SMIB. Field office staff can add the amounts shown in the SMIB item of these screens to determine the tax year's Medicare total. This total should equal the total shown in the SMIB PREMIUM TOTAL on the Statement Supporting Data tax screen. Once verified, field office staff informs Mr. Jones that the \$1,062.00 discrepancy is due to his deductions for Medicare (\$88.50 x 12 months equal \$1,062.00). In addition, field office staff state that the amounts shown on the tax statements are before Medicare deductions and that this situation is explained in the paragraph entitled, Medicare, on the back of the automated tax statement mailer or appropriate TL letter.

- Beneficiaries want to know the Medicare premiums total that they paid during the year so that they can use it when determining the amounts to show on their annual income tax returns. Beneficiaries contact the field offices asking for this information. Field office personnel referred to the Statement Supporting Data screen (PF15 then PF13) in order to provide beneficiaries with their Medicare premium total.
- The Social Security Administration (SSA) shows a separate item for beneficiaries' Medicare premiums total on Form SSA-1099 (for U.S. citizens) and Form SSA-1042S (for NRAs) tax statements. Beneficiaries and field office personnel feel that the RRB should follow SSA's example and show a separate item for the Medicare premiums total. For consistency, beneficiaries want the RRB to show their Medicare premium total on Form RRB-1099 and Form RRB-1042S to correspond with Form SSA-1099 and Form SSA-1042S.

#### **B. Types of Medicare Premiums Shown On RRB Tax Statements:**

The tax database stores the total Part B, C, D and/or B Income Related Monthly Adjustment Amount (IRMAA) Medicare premiums deducted from railroad retirement annuities. For tax years 1997 through 2006 tax statements, we only report the total Part B Medicare premiums deducted from beneficiaries' railroad retirement annuity payments during the tax year. Effective with tax year 2007, we report the total Medicare Part B and/or B IRMAA premiums deducted from railroad annuity payments. Effective with tax year 2011, we report the total Medicare Part B, C, D and/or B IRMAA premiums deducted from railroad annuity payments. If Medicare premiums are deducted from railroad retirement annuity payments, then the Medicare premium total will normally be shown on Form RRB-1099 (for citizens) and Form RRB-1042S (for NRAs). However, if the beneficiary is not required to receive a Form RRB-1099 or Form RRB-1042S (i.e., beneficiary is not receiving and/or repaying SSEB benefits), then the Medicare premium total will be reported on Form RRB-1099-R. See below:

- Form RRB-1099 and Form RRB-1099-R: If a "citizen" beneficiary is receiving both a Form RRB-1099 and Form RRB-1099-R for the same tax year, the Medicare premium total will be shown on the Form RRB-1099, not Form RRB-1099-R. Under no circumstances will the Medicare premium total be shown on both types of tax statements.
- Form RRB-1042S and Form RRB-1099-R: If an "NRA" beneficiary is receiving both a Form RRB-1042S and Form RRB-1099-R for the same tax year, the Medicare premium total will be shown on the Form RRB-1042S, not

the Form RRB-1099-R. Under no circumstances will the Medicare premium total be shown on both types of tax statements.

**C. Types of Medicare Premiums NOT Shown On RRB Tax Statements:**

We are not able to show the Medicare premium total for three categories of beneficiaries. However, it should be noted that we did not provide the Medicare premium total information for these same beneficiaries in the past since the tax database does not store this information for these types of beneficiaries. Thus, the Statement Supporting (STBRK) general tax screen (PF15 then PF13) did not show Medicare premium information for these beneficiaries. The three categories are:

**Category 1:** Beneficiaries whose Medicare premiums are deducted from their social security benefits, not their railroad retirement benefits for all or part of year. However, the RRB can provide a letter to the beneficiary stating the total amount of Medicare deducted from only the social security benefits. Field offices can prepare and release Form RL-376. Form RL-376 is available on RRAILS. Requests can be referred to the Medicare Section if the field office is unable to determine the amount of Medicare premiums deducted from benefit payments during the year. **Refer to the NOTE below.**

**NOTE:** There are beneficiaries who receive both railroad retirement and social security benefits and their Medicare premiums are initially deducted from their railroad retirement benefits (i.e., RRB has jurisdiction of the Medicare premium deduction). During the year, the beneficiary's annuity may be adjusted causing the railroad retirement annuity to be less than the Medicare premium deduction. When that occurs, the Medicare premium cannot be deducted from the railroad annuity since the railroad annuity is not large enough to sustain the Medicare deduction. Therefore, the Medicare premium switches and gets deducted from the social security benefit since that benefit is large enough for the Medicare deduction. The RRB will report the Medicare premiums deducted from the railroad benefit on the RRA tax statements (Forms RRB-1099, RRB-1042S, or RRB-1099-R). However, the RRB will not report the Medicare premiums deducted from the social security benefit. At the same time, the Social Security Administration (SSA) will not report the Medicare premiums deducted from the social security benefit on the SSA tax statements (Form SSA-1099 or Form SSA-1042S) since the RRB initially had jurisdiction to handle the Medicare premium deduction. As a result, the beneficiary will receive a set of RRB and SSA tax statements, and only the RRB tax statements will show the Medicare premiums deducted from railroad benefits. The Medicare premium total shown on the RRB

tax statements does not include any premiums deducted from the social security benefit.

**Category 2:** Beneficiaries who are paying their Medicare premiums by direct bill on either a quarterly or annual basis.

**Category 3:** Beneficiaries whose Medicare premiums are paid by a third party. In most cases, the third party is the beneficiary's State.

**D. Medicare Premium Refunds NOT Included into Medicare Premium Total:**

Medicare premium refunds made during the year are not considered in the Medicare premium total for the year. This may affect the accuracy of the amount reported on the tax statements.

Example: Mr. Jones receives Medicare and has a Medicare premium in the amount of \$55.00. The RRB deducted \$55.00 from his railroad annuity from January 1 through October 31. Therefore, from January through October, the RRB deducted \$550.00 (\$55.00 x 10 months) in Medicare premiums. However, it was determined that Mr. Jones' Medicare premium should be in the amount of \$50.00 per month not \$55.00. Therefore, from January through October, the RRB should have deducted a total of \$500.00 (\$50.00 x 10 months) in Medicare premiums. Mr. Jones is due a Medicare refund in the amount of \$50.00 (\$550.00 minus \$500.00). Effective November, the RRB correctly deducted \$50.00 from his annuity for November and December, and paid a Medicare refund of \$50.00 to Mr. Jones as a nontaxable one-payment-only. On his tax statement for the year, the Medicare Premium Total would be \$650.00 (\$550.00 January thru October plus \$50.00 for November plus \$50.00 for December). The \$50.00 Medicare premium refund will not be taken into consideration in the computation of the Medicare Premium Total shown on the tax statement. After paying the \$50.00 Medicare premium refund, Mr. Jones only has \$600.00 worth of Medicare premiums for the year however his tax statement for that same year will show \$650.00 as the Medicare Premium Total. If only the Medicare premium total is in error, then a corrected tax statement will not be issued (see section E Impact of Medicare Premium Total on Duplicate and Corrected Tax Statements).

## **E. Impact of Medicare Premium Total on Duplicate and Corrected RRB Tax Statements**

The addition of the Medicare Premium Total on the tax statements will impact the way we handle duplicate and corrected tax statements for tax year 1997 and later.

- Duplicate tax statements: The concept of the duplicate tax statement is to provide an exact copy of a previously released original or corrected tax statement. A duplicate tax statement can be on either RRAILS generated, or personal computer (PC) generated stand alone tax statement forms. The tax information shown on the "duplicate" tax statement should be the same as the tax information shown on the previously released tax statement. Therefore, the Medicare Premium Total box item for duplicate tax statements prior to tax year 1997 will be blank since Medicare was not on the original or corrected tax statements for those years. However, the Medicare Premium Total box item for duplicate tax statements for tax years 1997 and later will show an amount if an amount was shown on the previously released tax years 1997 and later original and corrected tax statements. See TOM 320, Duplicate Tax Statements.
- Corrected tax statements: If the Medicare premium total and any other item shown on the tax year 1997 and later tax statement(s) are in error, then a corrected tax year 1997 and later tax statement should be issued showing the corrections for both the Medicare premium total and the other item(s) error(s). A corrected tax statement can be on either the RRAILS generated or personal computer (PC) generated stand alone tax statement forms.

However, if only the total Medicare premium total is in error, then we will not issue a corrected tax year 1997 and later tax statement. A corrected tax year 1997 and later tax statement is not necessary since the Medicare premium total is only for informational purposes. In addition, we are not legally obligated by IRS to report the Medicare premium total on our tax statements. If the Medicare premium total amount on tax year 1997 and later tax statements is the only item in error and the correct Medicare premium amount has been verified, release Form Letter RL-376, which is available on RRAILS, stating the correct Medicare premium total amount.

The Medicare premium total is normally shown on Form RRB-1099 (for citizens) or Form RRB-1042S (for NRAs). Therefore, if a beneficiary receives a "combined" Form RRB-1099 and Form RRB-1099-R (for citizens) or Form RRB-

1042S and Form RRB-1099-R (for NRAs) for a tax year, the Medicare premium total box item on the Form RRB-1099-R will be blank. However, if the Form RRB-1099 or Form RRB-1042S is cancelled, then a "corrected" Form RRB-1099 or Form RRB-1042S is issued showing "zero" payment, repayment, tax withholding and/or Medicare premium total amounts. As a result, the Medicare premium total should be transferred to the Form RRB-1099-R since that is the only tax statement left to report tax information. Therefore, a "corrected" Form RRB-1099-R is issued showing the amounts shown on the cancelled Forms RRB-1099 or RRB-1042S amounts. Basically, if the Medicare premium total was reported on one type of tax statement and that tax statement type is cancelled (i.e., corrected tax statement is released reporting zero amounts), then the Medicare premium total should be transferred to the remaining tax statement type. The remaining tax statement type will be a corrected tax statement since it must include the payments, repayments and/or tax withholding from the cancelled tax statement.

Furthermore, we will not issue corrected tax statements for tax years prior to 1997 if the Medicare premium total is in error or if the beneficiaries request corrected tax statements that show their Medicare premium total for tax years prior to tax year 1997. See TOM 325.05, Corrected Tax Statements.

## **305 Release of Original Statements**

### **305.05 Release of Original Tax Statements**

There are three basic tax statement forms: Form RRB-1099, Form RRB-1099-R and Form RRB-1042S.

During January, P&S-PAS issues "original" automated annual tax statements to individuals who were paid or repaid railroad retirement annuities and/or who had taxes withheld from railroad retirement annuities in the previous year. Form RRB-1099/1099-R is the citizen automated annual tax statement mailer. Form RRB-1042S/1099-R is the NRA automated annual tax statement mailer.

Sample copies of Form RRB-1099/1099-R mailer and Form RRB-1042S/1099-R mailer can be found on the RRB website at [http://www.rrb.gov/PandS/tax/mailler\\_examples.asp](http://www.rrb.gov/PandS/tax/mailler_examples.asp).

The mailer envelopes (both domestic and air mail) indicate that forwarding is required and that address corrections are requested from the postal service.

NOTE: Effective in tax year 1994, the RRB issued and released a fourth tax statement form, IRS Form 1099-C, Cancellation of Debt. This tax statement form reports the cancellation of a debt of \$600.00 or more for overpayments which were not taxable when originally paid. In most cases, these are payments that occurred prior to 1984. See TOM 335 for more detailed information concerning IRS Form 1099-C, Cancellation of Debt.

### 305.10 Due Date

The Internal Revenue Code (IRC) requires that "original" Forms 1099, 1099-R and 1099-C tax statements be furnished to recipients by January 31 of the year following the close of the tax year. In addition, the IRC requires that "original" Form 1042S tax statements be furnished to recipients by March 15 of the year following the close of the tax year.

Per the IRC, when a recipient's tax year ends earlier than the close of the calendar year (for example, beneficiary died during the calendar year), the RRB is required to release original Forms RRB-1099, RRB-1042S, RRB-1099-R and/or IRS Form 1099-C tax statements, IF REQUESTED BY THE DECEASED BENEFICIARY'S SURVIVOR(S) OR ATTORNEY OR EXECUTOR OF WILL OR ESTATE, within 30 days from the date the request was received. If the RRB honors the request and issues a tax statement prior to the close of the calendar year, a bypass code may be entered into the beneficiary's tax record to prevent an automated year-end tax statement from being produced or issued. Refer to TOM 3105.20, Beneficiary Identification/Information Data (BENID/INFO), for a list of the bypass codes (and their corresponding explanations) used to prevent the release of automated original tax statement mailers. In addition, refer to the section entitled, Death Suppression Applied to Tax Statements, in TOM 300.05, General Information.

The RRB sets as its goal January 31 of the year following the close of the tax year as the due date to release (furnish) "original" tax statements that the RRB issues (i.e., automated mailers Form RRB-1099/1099-R and Form RRB-1042S/1099-R; Forms RRB-1099; RRB-1042S; RRB-1099-R; and IRS Form 1099-C) to beneficiaries. Automated annual original tax statement mailers are released to beneficiaries by the outside printing/mailing contractor in mid-January, to report tax information for the prior tax year. Information shown on original tax statements is reported to the IRS by the RRB each year (usually in February and August).

For any due date established by the Internal Revenue Service (IRS), the "file" or "furnish" requirement is met if the form (i.e., tax statement) is properly addressed and mailed First Class, or sent by an IRS designated delivery service on or before the due



date. If the due date falls on Saturday, Sunday or legal holiday, the due date is the next business day.

The RRB issues “corrected” Forms RRB-1099, RRB-1042S, RRB-1099-R, and IRS Form 1099C throughout the calendar year. Corrected tax statements have no due date to release since they are issued and released throughout the year as errors, adjustments and/or discrepancies are identified and corrected. Information shown on corrected tax statements is reported to the IRS by the RRB each year (usually in August).

The RRB issues “duplicate” Forms RRB-1099, RRB-1042S, RRB-1099-R, and IRS Form 1099C throughout the calendar year. Duplicate tax statements have no due date to release since they are issued and released throughout the year as requests for duplicate tax statements are received. Information shown on duplicate tax statements is not reported to the IRS since the information shown on the duplicate was previously sent to the IRS on the original or corrected tax statement. MPM Communications was selected as our multi-year contractor to produce and mail our tax statement mailers for tax years 2015 through 2020. The automated tax statement mailers produced by the contractor are considered “original” tax statements. We do not use the contractor to produce any corrected, bypassed or duplicate tax statements.

The chart below summarizes the “actual” number of automated citizen and NRA tax statement mailers produced and released by the contractor for tax years 1991 through current (includes the 10 [5 citizens + 5 NRAs] RRB quality control tax statements):

	<b>CITIZEN</b>	<b>NRA</b>	<b>TOTAL MAILERS</b>
2016	563,404	2,730	566,134
2015	567,644	2,779	570,423
2014	571,237	2,885	574,122
2013	575,603	3,108	578,711
2012	580,156	4,961	585,117
2011	584,562	3,266	587,828
2010	588,736	3,489	592,225

2009	593,266	3,603	596,869
2008	600,387	3,729	604,116
2007	609,280	3,852	613,132
2006	618,539	3,979	622,518
2005	632,868	4,202	637,070
2004	645,446	4,321	649,767
2003	660,963	4,553	665,516
2002	680,135	4,717	684,852
2001	694,038	5,260	699,298
2000	717,841	5,422	723,263
1999	740,950	5,728	746,678
1998	764,639	6,044	770,683
1997	789,424	5,839	795,263
1996	814,118	6,069	820,187
1995	839,229	6,680	845,909
1994	863,354	7,654	871,008
1993	882,537	9,989	892,526
1992	910,295	7,627	917,922
1991	928,284	6,512	934,796

**Contractor Inspection** - During the tax statement production process, we run two to three pre-production tests that mimic actual production. These pre-production tests are provided for in the contract and contain 100 to 200 test cases. In addition, we add RRB

staff names (usually the three field office regional directors, and BIS and P&S tax analysts and managers responsible for tax statements) to the pre-production tests to use as a quality control measure. These tests help to identify any potential problems, errors or inconsistencies prior to actual production. The pre-production tests also help to insure that the beneficiaries receive their own tax statement and the correct information is shown on those tax statements. The pre-production tests verify that the correct information is sent to the contractor; the contractor correctly reads the information and prints the information in the correct box items on the tax statements; the correct mailing address is used and the appropriate postal barcodes are added; the tax statements are correctly folded and inserted into the correct envelope type (domestic or air mail); and the envelope is completely sealed. In accordance with the contract, the RRB may exercise the option to send RRB representatives to conduct an onsite inspection at the contractor's printing/ mailing facility prior to the actual production and mass mailing of the automated tax statement mailers. In addition, the RRB may perform this inspection over the phone if RRB representatives are not sent to the contractor's facility. The RRB representatives use test cases from the actual production file and a contractor inspection checklist during the onsite inspection or phone inspection to insure that the automated mailers are produced and mailed with the appropriate requirements, all information is kept safe and secure, and all spoilage is properly destroyed (shredded). After the production test cases are reviewed and approved and the inspection has been conducted and approved, the RRB will give the contractor the approval to produce and mail the automated original tax statement mailers. In addition, we add RRB staff names (usually the three field office regional directors, and BIS and P&S tax analysts and managers responsible for tax statements) to the actual production file to use as a quality control measure. RRB staff will receive tax statements at their home or office address, and can review the tax statement for accuracy, print quality and to determine mail delivery time.

### **305.15 Statement Extract/Year-End Processing**

The last work day in December is considered the last day to enter all tax activity for the tax year. By January 31 each year, we release automated original tax statements to most railroad retirement beneficiaries. In order to release these tax statements, we run a series of statement extract programs in early January (usually the first work day back from the New Year's Day holiday) that extracts payment, repayment, Medicare, workers' compensation, employee contribution, and tax withholding information for the previous tax year from the taxation database. The series of programs include the following: Database Sweep (26153); LAMBDA-Database Extract (26159); Audit Calculation (26763); Annual Extract (26184); Bypass Sort (26122); Bypass PC Upload (26290); Statement Database or STATTAXR Load (26294); and Bypass Code Update (26195). In addition, we upload the current tax year's original tax statement information to the tax

database (and tax screens) for reference and documentation. The create date shown on the Statement Summary (STSUM, PF 14) general tax screen and the issue date shown on the Statement general tax screen (STMT, PF 15) are the same dates and is the date that the current tax year's original automated tax statements were uploaded to the tax database. In addition, we upload the bypass codes for the current bypass cases to the Beneficiary Identification/Information Data (BENID/INFO, PF 16) general tax screen.

This extracted information will be reported on the automated original tax statements. This information is different for each beneficiary (i.e., variable data). The variable data is formatted using the Formatted Print program (26189) so the data can be sent to the tax statement printing/mailing contractor in a readable format for production, printing, and mass mailing of original tax statements using the variable data. Prior to release to the contractor, we check the accuracy of the variable data on the tax statements by using a Tape Compare program (26481) to verify counts and amount totals. The Tape Compare program also checks the accuracy of the tax statement information submitted to IRS. (Original and corrected tax statement information is sent to the IRS using cartridges, disks or the IRS secure website called, Filing Information Returns Electronically (FIRE) system). Prior to tax year 2006, the variable data was copied onto cartridges and these cartridges were sent (by overnight delivery) to the tax statement printing/mailing contractor. Effective with tax year 2006 and later, the variable data is now sent to the tax statement printing/mailing contractor via electronic file transfer. Necessary security measures have been established to insure the safeguarding of our beneficiaries' personal information (limited access, selected personnel for transfer, passwords, encryption of information). Through the contractor, we release over 600,000 automated original tax statement mailer packets each January.

**Bypass Cases** - For those cases in which the release of an accurate automated original tax statement is questionable, or in which the computations required to prepare an original tax statement must be done manually, an automated original tax statement is not released. Instead, a bypass code is entered in the tax database to indicate that the record was bypassed for manual original tax statement release. The bypass code is entered into the beneficiary's ANNTAXR record in the tax database either manually using RRBTAS or mechanically through one of the statement extract programs. A bypass code is either temporary (meaning the year end statement extract programs will initialize or remove the bypass code from the beneficiary's ANNTAXR) or permanent (meaning TCIS or PAS must manually remove the bypass code from the beneficiary's ANNTAXR using RRBTAS or the code stays in the ANNTAXR). A bypass notice (letter) or customized explanation letter is released to the beneficiary if the original tax statement cannot be released by January 31st. Refer to TOM 305.20, for more

information on bypass letters and the release of manually produced original tax statements for bypass cases.

The Tax Clerical and Imaging Section (TCIS) will focus their efforts to produce and release the original tax statements for bypass cases by January 31. In addition, Policy & Systems – Payment Analysis and Systems (PAS) issues a memo to TCIS in December stating that TCIS should handle bypass cases with tax withholding **before** bypass cases without tax withholding for tax return/refund purposes. There are situations in which TCIS may need customized instructions from PAS on how to complete the tax statements for a bypass case. PAS will issue instructions to TCIS for handling and those instructions and any other documentation (worksheets, screen prints, etc.) will be imaged for future reference.

The chart below summarizes the “actual” number of cases bypassed for tax years 1992 through current:

<b>YEAR</b>	<b>BYPASS CASES</b>
2016	80
2015	144
2014	168
2013	198
2012	124
2011	183
2010	134
2009	101
2008	125
2007	128
2006	164

2005	175
2004	316
2003	1,371 (see Note)
2002	132
2001	239
2000	151
1999	136
1998	233
1997	158
1996	136
1995	108
1994	990
1993	1,310
1992	1,921

NOTE: For tax year 2003, we had 1,371 bypass cases. However, of the 1,371 bypass cases, we specifically bypassed 1,141 cases that were intended to be handled mechanically.

The bypass category codes are listed and explained in detail in TOM 3105.20. Bypass codes 001, 002, 003, 005, 008, 009, 010, 012, 013, and 014 are still valid and are used. Bypass codes 004, 006, 007 and 011 are obsolete and are no longer used. A brief synopsis of the valid bypass codes are shown below.

<b>BYPASS CODE</b>	<b>DEFINITION</b>
------------------------	-------------------

001	No name/address in tax database
002	Unidentified paid amount (UPA) with no tier breakdown
003	Unidentified paid amount (UPA) over \$25.00 with tier breakdown
005	Scrambled data/record. Information does not correspond to beneficiary's annuity type.
008	Used for prior year death/non-death terminations; prior year suspensions with no payments or repayments; social security only cases; garnishment only cases.
009	Bypassed from the monthly TAS RECERT run.
010	Miscellaneous reasons – used for a permanent bypass
012	Special Purposes – currently used for partition and survivor work deduction cases.
013	Miscellaneous reasons and Tax Refund cases involving NRA taxes.
014	Current year tax statement is already issued upon request due to beneficiary's death or annuity termination.

### 305.20 Annual Statement Bypass Letters

Fewer and fewer annuitant records are bypassed in automated tax statement processing due to questionable records or due to computations that require manual handling. This is due to continued improvements to the automated tax programs.

Form TXL-269, which replaced Form TL-269A, is automatically generated and released to annuitants whose original tax statements are bypassed in automated tax statement processing. Form TL-269A was obsolete in October 2007. It was used to inform an annuitant, who had a portion of his or her retirement benefits paid by court order to someone else, that his or her tax statement can now be prepared and issued through our mechanical process.

Form TXL-269 informs the annuitant that there is a delay in the release of their original tax statements and that the RRB will attempt to issue their tax statements as soon as

possible. In addition, the TXL- 269 bypass letter informs annuitants that they may request from the IRS an extension to file their tax returns.

NOTE: We may issue customized explanation letters in lieu of the standard bypass letter (TXL-269). These customized letters are manually produced and provide specific information unique to a particular case.

**Bypass Codes That Issue Bypass Letters** - If an annuitant has a bypass code of 001, 002, 003, 005, 012 or 013, the annuitant will receive a TXL-269 bypass letter (most will receive TXL-269, a few will receive a customized letter). The TXL-269 or customized letters should be imaged for documentation and reference.

**Bypass Codes That Do NOT Issue Bypass Letters** - If an annuitant has a bypass code of 008, 009, 010, or 014 the annuitant will NOT receive a bypass letter.

The Tax Clerical and Imaging Section (TCIS) will review each case that has been bypassed and manually issue and release “original” tax statements to the annuitants. A TL-266 letter and the appropriate TXL letters (TXL-1099, TXL-1042S, TXL-1099-R or TXL-1099-R 1991) will be sent with these manually produced original tax statements. The TL-266 letter is the letter that explains that the enclosed tax statements are “original” tax statements. The TXL letters provides general information and explanations of the box items shown on a particular tax statement. There are four TXL letters (one for each tax statement type) and the appropriate TXL letters are sent with the corresponding original tax statements (example, TXL-1099 is sent with the Form RRB-1099 tax statement).

NOTE: We may issue customized explanation letters in lieu of the standard TL-266 letter. These customized letters are manually produced and provide specific information unique to a particular case.

If after review, it is determined that the annuitant does not need a tax statement, Form TXL-270 is released by TCIS. The TXL-270 letter should be imaged for documentation and reference. Refer to TOM 305.20.15, FORM TXL-270.

Prior to 1992, if a bypass case was not handled by the end of July (and, therefore, the annuitant was not able to file a tax return in time for the August 15 deadline), Form TL-271 was automatically generated and released to the annuitants. Effective with tax year 1992, all bypassed tax statements were completed by June. Form TL-271 is no longer released and is considered obsolete. Effective with tax year 1995 and later, our goal is to have all bypassed tax statements completed by March 1.



Refer to TOM 3105.20, Beneficiary Identification/Information Data (BENID/INFO), for a list of the numeric bypass codes and their corresponding explanations.

### **305.20.05 Form TXL-269**

In order to minimize the number of inquiries to the field offices concerning bypassed cases, Form TXL-269 is automatically generated if the case falls into any of several bypass categories; except for legal partition cases (bypass code 012 indicates a legal partition case or a special category case). This notice advises the annuitant of the delay and that a manual review of their case is needed. This letter should be imaged for documentation and reference.

A separate notice will be released to each family member that is bypassed in automated tax statement processing under an account number that falls under all bypass categories, except legal partitions. However, not all family members are necessarily bypassed.

If the annuitant requests an explanation of the notice or why he/she did not receive a tax statement, field and headquarters personnel have the ability to answer the annuitant by accessing the Beneficiary Identification/Information Data General TAX screen (PF 16). The bypass code will be displayed under the MISC INFO section of this tax screen enabling personnel to provide the annuitant with an explanation that is based on the appropriate numeric code in TOM 3105.20, Beneficiary Identification/Information Data (BENID/INFO).

These notices are released in mid-January. However, the notices generated for cases with a bypass code of "001" may be delayed, since the name and/or address will need to be manually entered by a TCIS examiner.

Cases with bypass codes of 001 through 003, 005, and 013 will be manually reviewed by TCIS to determine if a tax statement is necessary.

Generally, cases with bypass codes of 013 are citizen or NRA beneficiaries who received a "NRA" tax refund during the tax year. Automated tax statement processing cannot correctly handle NRA tax refunds. Therefore, TCIS examiners enter a bypass code of 013 in order to produce and release correct manual tax statement(s) for the citizen or NRA beneficiary.

Generally, cases with bypass codes 010 and 014 do not need current year tax statements. **Cases with bypass code 010 are cases that are permanently bypassed and no longer receive tax statements. Cases with bypass code 014 are**

**those cases in which current tax year tax statements have already been released.**

Code 014 cases involve deceased beneficiaries whose survivors (executor, attorney, trustee, family) request a tax statement prior to year end for financial reasons, e.g. will probate.

**305.20.10 Form TL-269A**

Form TL-269A was obsolete in October 2007, and has been replaced with Form TXL-269. Form TL-269A was created in order to minimize the number of inquiries to the field offices concerning legal partition bypassed cases. Our processing for issuing tax statements has improved whereas we can now issue the tax statements correctly mechanically.

**305.20.15 Form TXL-270**

If after releasing Form TXL-269, or a customized explanation letter, TCIS-TS reviews a case and determines that the annuitant does not need a tax statement, Form TXL-270 should be manually released. This notice (letter) informs the annuitant that a tax statement will not be released and gives a short explanation. This letter should be imaged for documentation and reference.

**307 Undeliverable RRA Tax Statements**

Each January, the Railroad Retirement Board (RRB) releases an annual Railroad Retirement Act (RRA) tax statement mailer to recipients who were paid, repaid, or had taxes withheld from railroad retirement benefits.

The mailing address used on the RRA tax statement is the address that is on RRB records at the time the tax statements are issued. The message "ADDRESS SERVICE REQUESTED" is printed on the envelope. If the annuitant has moved and filed a permanent change of address form with the Postal Service, the message instructs the Postal Service to forward the tax statement to the recipient's new address and provide the RRB with the new address. The new address will be received on an address correction card, PS FORM 3547. Tax statements that cannot be forwarded or delivered are returned to the RRB headquarters.

**307.05 Initial Handling Of Undeliverable RRA Tax Statements**

The mailroom will forward all undeliverable RRA tax statements to the Tax Clerical and Imaging Section-Clerical Services Unit (TCIS-CSU). See FOM1 139, undeliverable mail procedure.

If a tax statement is returned because the address was missing or scrambled, TCIS-CSU will notify Policy & Systems-Payment Analysis & Systems (P&S-PAS) of the problem. P&S-PAS will investigate the problem and decide whether copies of the tax statement should be forwarded to them.

## **310 Tax Statement Mailer Packets**

We release two types of "original" automated annual tax statement mailer packets to our beneficiaries. The type of mailer packet a beneficiary will receive depends upon whether the beneficiary is a citizen and/or legal resident of the United States or a nonresident alien (NRA) of the United States. These mailer packets are produced and released by an outside printing/mailing contractor. These mailer packets contain the beneficiaries' "original" tax statements for the tax year. Each year, we send the tax statements (including the tax statement mailers) to the IRS for review and approval concerning the format and written content shown on the tax statements.

NOTE: No letters are issued with the original tax statement mailers produced by the contractor since the general information and explanation of tax statement box items are shown on the back of the mailers. The TL-265 and appropriate TXL letters are sent with the corrected tax statements. The TL-266 and appropriate TXL letters are sent with the original tax statements manually produced by TCIS-TS. Only the appropriate TXL letters are sent with the duplicate tax statement.

### **310.05 Form RRB-1099/1099-R**

For citizens or legal residents (resident aliens) of the United States, a standard Form RRB-1099/1099-R is sent to everyone who would normally receive a tax statement. This form is one originally printed page, size 8.5" x 14." The front side contains all the tax statement forms: Copy C of the Form RRB-1099 followed by Copy C, Copy 2 and Copy B of the Form RRB-1099-R. On each copy of the tax statement forms, we show the RRB's U.S. Federal/IRS identifying number, 36-3314600. At the top of the front side, the phrase, "UNFOLD TO SEE ALL TAX STATEMENT FORMS - SEE REVERSE SIDE FOR GENERAL INFORMATION", is printed in green colored ink above Copy C of Form RRB-1099. This phrase instructs the beneficiary to unfold the folded tax statement mailer packet. The contractor's quality control cut marks (i.e., a black dot inside a blue ink color pre-printed square) shown in the top left corner of the front side of the citizen tax statement mailer. The recipient's address box of Copy C of the Form RRB-1099 has been widened to allow for postal bar-coding and an endorsement line which helps to reduce our mailing postage costs. The box items on Forms RRB-1099 and RRB-1099-R representing the paid and tax withholding amounts have been bolded in order to make the amounts in these box items more noticeable. Therefore, the tax statements

become more user friendly because the amounts in the bolded box items are used by beneficiaries and/or tax preparers when preparing income tax returns. The variable data (beneficiary's tax amounts for the year) is imaged using laser printing. The back side contains the general information at the top followed by the explanation of items for Form RRB-1099, and the explanation of items for Form RRB-1099-R. In the general information section, we ask beneficiaries to review the mailing address shown on the tax statement mailer and provide the RRB with the correct and complete mailing address if the address shown is incorrect or incomplete. We inform beneficiaries who received social security benefits paid through the RRB that the SSA not the RRB will send Form SSA-1099 tax statement and Notice 703. We inform beneficiaries that if they do not receive the SSA tax statements they should contact the SSA not the RRB. In addition, we provide the SSA general toll free telephone number, 1-800-772-1213, and SSA website, [www.ssa.gov](http://www.ssa.gov).

If beneficiaries wish to determine if their SSEB portion of tier I and social security benefits are taxable, then refer them to the Social Security Benefits worksheets found in the Internal Revenue Service's (IRS) Instructions for Form 1040 and/or 1040A Booklet. If the beneficiary wants more detailed information about SSEB benefits, inform him or her to get IRS Publication 915, Social Security Benefits and Equivalent Railroad Retirement Benefits from the local IRS field office and/or U.S. Post Office.

### **Form RRB-1099**

Printed in blue and white color ink; the variable data for each beneficiary is printed in black ink. It reports SSEB or Overall Minimum (also called, O/M or special guaranty) amounts paid to or repaid by a beneficiary during the tax year. SSEB or special guaranty amounts are roughly equivalent to social security benefits and are treated as such for U. S. Federal income tax purposes. In addition, the workers' compensation offset is shown on Form RRB-1099. Effective with tax year 1992 and later, Form RRB-1099 will show the U. S. Federal income tax withheld from the SSEB portion of tier I or special guaranty. For information on SSEB benefits and Form RRB-1099, refer to IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits. Effective with tax year 1997 and later, there is a separate box item on Form RRB-1099 entitled, MEDICARE PREMIUM TOTAL, which reports the total Medicare premiums deducted from beneficiaries' railroad retirement annuity payments. The Medicare premium total is normally shown on Form RRB-1099, however if Form RRB-1099 is not required, then the Medicare premium total will be shown on Form RRB-1099-R. For those individuals who would only get a Form RRB-1099, all copies of the Form RRB-1099-R statements in the mailer will have the caption, "THIS FORM IS NOT REQUIRED FOR YOUR 20XX TAXES." printed on the forms. The "XX" denotes the actual tax year for the tax statement.

## Form RRB-1099-R

Printed in green and white ink; the variable data for each beneficiary is printed in black ink. It reports the employee contributions amount, if applicable, and the gross amounts of the NSSEB portion of tier 1 and tier 2 (these two annuity components are combined and shown in Box 4 on the Form RRB-1099-R as "Contributory Amount Paid"), vested dual benefit (VDB), and supplemental annuity payments less the current year repayments made in and attributed to the tax year. These types of payments are treated as private pensions for U. S. Federal income tax purposes. The NSSEB and tier 2 (Contributory Amount Paid) are considered as contributory pension amounts. Contributory pension amounts may be fully taxable or partially taxable, depending on the presence and use of the employee contribution amount. The VDB and supplemental annuity are considered as noncontributory pension amounts. Noncontributory pension amounts are always fully taxable. Effective with tax year 1992 and later, for individuals affected by General Rule provisions, the RRB no longer provides the nontaxable and taxable amounts of railroad retirement annuities. **The amounts shown on Form RRB-1099-R are considered a "normal distribution". A distribution code of "7" denotes a normal distribution and should be used if a code is needed for those amounts when completing income tax return(s). Some tax return software programs/packages may ask for a distribution code. This means that beneficiaries or their tax preparers should use a code "7" if asked for a distribution code for the amounts shown on Form RRB-1099-R.** The contributory amounts paid of disabled employee annuitants under minimum retirement age are fully taxable. Minimum retirement age is generally the age at which individuals could retire based on age and service (example, age 60 with 30 or more years of railroad service or age 62 with less than 30 years of railroad service). Employees who retired based on age and service and disabled employee annuitants who reach minimum retirement age may use the employee contribution amount shown on their Form RRB-1099-R to compute a nontaxable (tax-free) portion of their contributory amount paid. For information on pension payments (NSSEB, tier 2, VDB and supplemental annuity) and Form RRB-1099-R, refer to IRS Publication 575, Pension and Annuity Income.

Both Three-Year Rule and General Rule cases usually receive Form RRB-1099-R. However, those annuitants under the Three-Year Rule in which employee contributions were not recovered as of December 31, 1991, have been converted to General Rule as of tax year 1992. Therefore, if an annuitant was previously under the Three-Year Rule and contributions were not recovered and the annuitant did not previously receive Form RRB-1099-R; under the General Rule, they will receive Form RRB-1099-R.

Effective with tax year 1997 and later, there is a separate box item on Form RRB-1099-R entitled, MEDICARE PREMIUM TOTAL, which reports the total Medicare premiums

deducted from beneficiaries' railroad retirement annuity payments. The Medicare premium total is normally shown on Form RRB-1099, however if Form RRB-1099 is not required, then the Medicare premium total will be shown on Form RRB-1099-R. For those individuals who would only get a Form RRB-1099-R, Copy C of the Form RRB-1099 tax statement in the mailer will have the caption, "THIS FORM IS NOT REQUIRED FOR YOUR 20XX TAXES." printed on the form. The "XX" denotes the actual tax year for the tax statement.

If a repayment was made to any annuity component during a tax year, regardless if the annuitant has annuity entitlement for that same tax year, a tax statement reflecting the repaid amount(s) is released for that tax year.

Both Copy Cs of the Forms RRB-1099 and RRB-1099-R, near the top of the front side of the form, are to be retained by the beneficiary for documentation and record keeping purposes. The lower portion of the packet contains two copies of Form RRB-1099-R (Copy 2 and Copy B), which are perforated for easy detachment. Copy 2 of Form RRB-1099-R is filed with the state, city, or local income tax return when required. Please note that under Section 14 (45 U.S.C. Section 231m) of the RRA, railroad retirement annuities are not taxable for U.S. state income tax purposes. Copy B of Form RRB-1099-R is attached to the U. S. Federal income tax return if the form shows U. S. Federal income tax withheld in Box 9 (Box 9 will be bolded). Since these forms are folded and inserted in standard window envelopes, the name and address printed on Copy C of Form RRB-1099 is always used.

### **CONTRACTOR'S QUALITY CONTROL CUT MARKS FOR CITIZEN TAX STATEMENT MAILERS ONLY**

The blank citizen tax statement mailers are pre-printed on huge paper rolls while the blank nonresident (NRA) tax statement mailers are individual paper sheets. The citizen rolls are fed through the contractor's imaging/cutting machine. After the variable tax information is imaged (printed) onto the blank pre-printed citizen tax statement mailers, the machine performs a series of cuts that results in a single, fully imaged citizen tax statement mailer. The citizen tax statement mailer contains tax information for a specific individual. In order to ensure that the machine correctly images and cuts the citizen tax statement mailer, we requested that the contractor add quality control cut marks at the top of each citizen mailer. There is no need for cut marks on the NRA mailers since the blank NRA mailers are already cut into single, individual sheets. The cut mark is a pre-printed blue colored ink square. There may be two cut marks on a single correctly imaged and cut citizen tax statement mailer. The first cut mark is the pre-printed square. The second cut mark is a black dot that is imaged inside of the pre-printed square during actual imaging. All citizen mailers released will have both cut

marks (black dot inside a blue square). Both cut marks are located in the top left hand corner of the citizen mailer (across from the green colored ink pre-printed phrase, UNFOLD TO SEE ALL TAX STATEMENT FORMS – SEE REVERSE SIDE FOR GENERAL INFORMATION). Using these cut marks help prevent the erroneous imaging and cutting of the citizen tax statement mailers and ensures that a citizen beneficiary receives his/her own citizen tax statement mailer.

## **CONTRACTOR'S SEQUENCE NUMBER**

The contractor's sequence number of the citizen mailer is located in the recipient's name and address box of Copy C of Form RRB-1099. The contractor sequence number is printed in a smaller font size and is aligned so that it is printed to the far right of the recipient's name to avoid any potential confusion. The contractor sequence number is printed by the contractor who uses this number as a tool for mailer identification. If there are printing errors on a specific mailer, the contractor uses the sequence number to identify and re-image that same mailer without having to re-image other mailers.

Prior to tax year 1992, two tax statements were issued when a Three-Year Rule case was converted to a General Rule case during a tax year. This occurred most frequently, but was not limited to, spouse-to-widow(er) conversions. A spouse who was a Three-Year annuitant could have been a General Rule widow(er) because of the change in their beginning date. Therefore in prior practice, both tax statement packets were valid and would be included when the annuitant filed his or his income tax return. Effective with tax year 1992, we converted all "Three-Year Rule, Not Recovered cases" to "General Rule, Not Recovered cases." Therefore, we only release one tax statement. For widow(er)s that were paid as a spouse for part of the tax year, they will use only the annuity payments they received as a widow(er) to figure their nontaxable amount.

NOTE: If a beneficiary receives social security benefits during the year, the beneficiary should have received Form SSA-1099 and Notice 703 from the Social Security Administration (SSA). Form SSA-1099 inquiries should be directed to the SSA field offices not the RRB. However, any Form SSA-1099 inquiries sent to the RRB should be directed to TCIS. Refer to TOM 325.10.15, Form SSA-1099 and/or Form SSA-1042S Inquiries, for more information.

### **310.10 Form RRB-1042S/1099-R**

For nonresident aliens of the United States (NRAs), a standard Form RRB-1042S/1099-R is sent to all NRAs who would normally receive a tax statement. A NRA is defined as a person who is neither a citizen nor legal resident of the United States. This form is one

originally printed page, size 8.5" x 14." The front side of the NRA mailer contains all the tax statement forms: Copy C of Form RRB-1042S is at the top of the mailer followed by Copy C of Form RRB-1099-R, Copy B of Form RRB-1042S, and lastly Copy B of Form RRB-1099-R at the bottom of the mailer. On each copy of the tax statement forms, we show the RRB's U.S. Federal/IRS identifying number, 36-3314600. At the top of the front side, the phrase, "UNFOLD TO SEE ALL TAX STATEMENT FORMS -- SEE REVERSE SIDE FOR GENERAL INFORMATION", is printed in green colored ink above Copy C of Form RRB-1042S. This phrase instructs the NRA beneficiary to unfold the folded tax statement mailer packet. The NRA beneficiary's country of legal residence and tax withholding percentage rate are shown on Forms RRB-1042S and RRB-1099-R. Since the size of our envelope windows on both the domestic and air mail envelopes is standardized, the recipient's address box on Copy C of Form RRB-1042S is wider than the recipient's address box on Copy B of Form RRB-1042S to ensure that the NRA's private tax information is not displayed through the envelope window. The box items on Forms RRB-1042S and RRB-1099-R representing the paid and tax withholding amounts have been bolded in order to make the amounts in these box items more noticeable. Therefore, the tax statements become more user friendly because the amounts in the bolded box items are used by beneficiaries and/or tax preparers when preparing income tax returns. The variable data (beneficiary's tax amounts for the year is imaged using laser printing. The back side contains the general information at the top followed by the explanation of items for Form RRB-1042S, and the explanation of items for Form RRB-1099-R. In the general information section, we ask NRA beneficiaries to review the mailing address shown on the tax statement mailer and provide the RRB with the correct and complete mailing address if the address shown is incorrect or incomplete. We inform NRA beneficiaries who received social security benefits paid through the RRB that the SSA not RRB will send Form SSA-1042S tax statement and Notice 703. If the NRA beneficiaries do not receive the SSA tax statements they should contact the SSA not the RRB. In addition, we provide the SSA general toll free telephone number, 1-800-772-1213, and the SSA website ([www.ssa.gov](http://www.ssa.gov)).

For NRAs, taxes should have been withheld from their railroad retirement benefit payments during the tax year, unless exempt under a tax treaty to which the United States (U.S.) is a party. NRAs are not required to file a U. S. Federal income tax return if: 1) their entire tax liability was fulfilled by withholding of tax on their benefits; 2) NRAs only income from sources within the United States was not connected to a trade or business; and 3) the correct amount of tax for the year was withheld. However, NRAs may wish to file a tax return to receive a tax refund if too much tax was withheld from their payments. If an NRA's country of legal residence AND/OR tax withholding rate changes during the tax year, the NRA may receive more than one set of "original" Form RRB-1042S/1099-R mailers. If a NRA was also a resident of the United States during the tax year, the NRA may receive an original Form RRB-1099/1099-R (citizen) mailer,



and may be required to file Form 1040, U.S. Individual Income Tax Return. If a NRA wishes more information on their filing requirements, inform the NRA to obtain IRS Publication 519, U.S. Tax Guide for Aliens, from the IRS.

### **Form RRB-1042S**

Printed in black and white ink; the variable data for each beneficiary is printed in black ink. It reports SSEB or Overall Minimum (also called, O/M or special guaranty) amounts paid to or repaid by a beneficiary during the tax year. SSEB or special guaranty amounts are roughly equivalent to social security benefits and are treated as such for U. S. Federal income tax purposes. In addition, the workers' compensation offset is shown on Form RRB-1042S. Effective with tax year 1992 and later, Form RRB-1042S shows the U. S. Federal income tax withheld from the SSEB portion of tier 1. For information on SSEB benefits and Form RRB-1042S, refer to IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits. The NRA beneficiary's country of legal residence and tax withholding percentage rate is also shown on Form RRB-1042S. Effective with tax year 1997 and later, there is a separate box item on Form RRB-1042S entitled, MEDICARE PREMIUM TOTAL, which reports the total Medicare premiums deducted from beneficiaries' railroad retirement annuity payments. The Medicare premium total is normally shown on Form RRB-1042S, however if Form RRB-1042S is not required, then the Medicare premium total will be shown on Form RRB-1099-R. For those individuals who would only get a Form RRB-1042S, all copies of the Form RRB-1099-R statements in the mailer will have the caption, "THIS FORM IS NOT REQUIRED FOR YOUR 20XX TAXES." printed on the forms. The "XX" denotes the actual tax year for the tax statement.

### **Form RRB-1099-R**

Printed in green and white ink; the variable data for each beneficiary is printed in black ink. It reports the employee contributions amount, if applicable, and the gross amounts of the NSSEB portion of tier 1 and tier 2 (these two annuity components are combined and shown in Box 4 on the Form RRB-1099-R as "contributory amount paid"), vested dual benefit (VDB) and supplemental annuity payments less the current year repayments made in and attributed to the tax year. These types of payments are treated as private pensions for U.S. Federal income tax purposes. The NSSEB and tier 2 (Contributory Amount Paid) are considered as contributory pension amounts. Contributory pension amounts may be fully taxable or partially taxable, depending on the presence and use of the employee contribution amount. The VDB and supplemental annuity are considered as noncontributory pension amounts. Noncontributory pension amounts are always fully taxable. The NRA beneficiary's country of legal residence and tax withholding percentage rate is also shown on Form

RRB-1099-R. Effective with tax year 1992 and later, for individuals affected by General Rule provisions, the RRB no longer provides the nontaxable and taxable amounts of railroad retirement annuities. The amounts shown on Form RRB-1099-R are considered a "normal distribution". A distribution code of "7" denotes a normal distribution and should be used if a code is needed for those amounts when completing income tax return(s). Some tax return software programs/packages may ask for a distribution code. This means that beneficiaries or their tax preparers should use a code "7" if asked for a distribution code for the amounts shown on Form RRB-1099-R. The contributory amounts paid of disabled employee annuitants under minimum retirement age are fully taxable. Minimum retirement age is generally the age at which individuals could retire based on age and service (example, age 60 with 30 or more years of railroad service or age 62 with less than 30 years of railroad service). Employees who retired based on age and service and disabled employee annuitants who reach minimum retirement age may use the employee contribution amount shown on their Form RRB-1099-R to compute a nontaxable (tax-free) portion of their contributory amount paid. For information on pension payments (NSSEB, tier 2, VDB, and supplemental annuity) and Form RRB-1099-R, refer to IRS Publication 575, Pension and Annuity Income.

Effective with tax year 1997 and later, there is a separate box item on Form RRB-1099-R entitled, MEDICARE PREMIUM TOTAL, which reports the total Medicare premiums deducted from beneficiaries' railroad retirement annuity payments. The Medicare premium total is normally shown on Form RRB-1042S, however if Form RRB-1042S is not required, then the Medicare premium total will be shown on Form RRB-1099-R. For those individuals who would only get a Form RRB-1099-R, all copies of the Form RRB-1042S tax statement in the mailer will have the caption, "THIS FORM IS NOT REQUIRED FOR YOUR 20XX TAXES." printed on the forms. The "XX" denotes the actual tax year for the tax statement.

If a repayment was made to any annuity component during a tax year, regardless if the annuitant has annuity entitlement for that same tax year, a tax statement reflecting the repaid amount(s) is released for that tax year.

Copy C of Forms RRB-1042S and RRB-1099-R on the front side of the form are to be retained by the beneficiary for documentation and record keeping purposes. Copy B of Forms RRB-1042S and RRB-1099-R are perforated for easy detachment. Copy B of Form RRB-1042S is attached to the U. S. Federal income tax return if the form shows U. S. Federal income tax withheld in Box 12 (Box 12 will be bolded). Copy B of Form RRB-1099-R is attached to the U. S. Federal income tax return if the form shows U. S. Federal income tax withheld in Box 9 (Box 9 will be bolded). Since these forms are folded and inserted in standard window envelopes, the name and address printed on Copy C of Form RRB-1042S is always used.

The NRA mailer does show any quality control cut marks.

### **CONTRACTOR'S SEQUENCE NUMBER**

The contractor's sequence number of the NRA mailer is located in the recipient's name and address box of Copy C of Form RRB-1042S. The contractor sequence number is printed in a smaller font size and is aligned so that it is printed to the far right of the recipient's name to avoid any potential confusion. The contractor sequence number is printed by the contractor who uses this number as a tool for mailer identification. If there are printing errors on a specific mailer, the contractor uses the sequence number to identify and re-image that same mailer without having to re-image other mailers.

Each tax statement (Forms RRB-1042S and RRB-1099-R) reports the tax withholding percentage rate applied to the taxable amounts of an NRA's railroad retirement annuity; the amount of taxes withheld from those payments; and the latest country in which legal residence is claimed. If the NRA beneficiary's place (country) of residence AND/OR tax withholding rate changed during the year, they will receive an original tax statement for each change that will affect the tax withholding. Therefore, NRAs may receive multiple original tax statements for the same tax year.

As with citizens, prior to tax year 1992, two tax statements were issued to NRAs when a Three-Year Rule case was converted to a General Rule case during a tax year. This occurred most frequently, but was not limited to spouse-to-widow(er) conversions. A spouse who was a Three-Year Rule annuitant could have been a General Rule widow(er) because of the change in annuity beginning date. Therefore in prior practice, both tax statement packets were valid and would be included when the beneficiary filed a U.S. Federal income tax return. Effective with tax year 1992, we converted all "Three-Year Rule, Not Recovered cases" to "General Rule, Not Recovered cases". Therefore we only release one tax statement. For widow(er)s that were paid as a spouse for part of 1996, they will use only the annuity payments they received as a widow(er) to figure their nontaxable amount.

**NOTE:** If an NRA beneficiary receives social security benefits during the year, the NRA beneficiary should have received Form SSA-1042S and Notice 703 from the Social Security Administration (SSA). Form SSA-1042S inquiries should be directed to the NRA beneficiary's nearest SSA field office not the RRB. However, any Form SSA-1042S inquiries sent to the RRB should be directed to TCIS. Refer to TOM 325.10.15, Form SSA-1099 and/or Form SSA-1042S Inquiries, for more information.

### **COMPUTER MATCHING AND PRIVACY PROTECTION ACT NOTICE**

Prior to tax year 2000, we showed the Computer Matching and Privacy Protection Act Notice at the bottom of the back of both the citizen and NRA tax statement mailers. In addition, this notice was also shown at the bottom of each of the four Taxation TXL Letters (TXL-1099; TXL-1042S; TXL-1099-R; and TXL-1099-R 1991). Effective with tax year 2000 and later mailers and TXL letters, we no longer show the Computer Matching and Privacy Protection Act Notice. The notice is now shown on the T-58 which accompanies the annual Railroad Retirement Act (RRA) rate notices (T-55, T-56, and T-57) released to beneficiaries each December.

### **ENCODED LINE**

On both the citizen and NRA mailers, an encoded line is printed and appears above each beneficiary's name and mailing address. In an effort to protect the annuitant's personal identifiable information, this line only contains filler alpha/numeric/special characters and the tax statement year.

Example: XXXXX999012008\*9999999

The first eight characters (Xs, and 9s) are filler positions, followed by the numeric month, century, and year the mailer is released (in this example, 012008 for January 2008); an asterisk symbol (\*); and seven additional filler positions (9s).

When the mailer is inserted into window envelopes, the beneficiary's name, mailing address, contractor's sequence number, and the encoded line is seen through the window of the envelope.

### **ENVELOPES (DOMESTIC and AIR MAIL)**

Tax statement mailers are mailed using two types of envelopes: Domestic envelopes or AIR Mail envelopes. Tax statement mailers with U.S. domestic mailing addresses are inserted and mailed in domestic envelopes. Tax statement mailers with foreign mailing addresses are inserted and mailed in air mail envelopes. The phrase, IMPORTANT TAX RETURN DOCUMENT ENCLOSED, is shown across both types of envelopes. The RRB eagle logo is used as the inside security pattern for the envelopes to insure privacy and confidentiality. The tax statement printing/ mailing contractor is required to check with the U.S. Postal Service to insure that all mailing requirements for the tax statements are met. In addition, the contractor is required to insure that all envelopes are completely sealed. The pre-printed postal permit indicia (stamp) shown in the top right hand corner of the envelopes insures that all necessary postage/ mailing costs have been paid. The return address shown in the top left hand corner of the envelopes

is the RRB headquarters address in Chicago, Illinois. Therefore, if tax statements are undeliverable, they will be returned to RRB headquarters for handling.

### **310.15 Revisions To The Tax Statement Mailer Packets**

For tax year 2011, date changes were made to both the Form RRB-1099/1099-R (1-2012) citizen tax statement mailer packet and the Form RRB-1042S/1099-R (1-2012) NRA tax statement mailer packet. Changes were also made to all forms to indicate that the "Medicare Premium Total" now includes all Part B, C, D and/or B Income Related Monthly Adjustment Amount (IRMAA) Medicare premiums withheld from monthly benefit payments. The individual tax statement forms on the mailers, ink color and the layout of the mailers have not changed.

### **315 Stand Alone Tax Statement Forms**

Stand alone Forms RRB-1099, RRB-1042S and RRB-1099-R are used for manually produced original, duplicate and corrected tax statements. The stand alone tax statements can be released together or separately, depending on what kind of tax statements are required.

Prior to 1994, the Mainframe generated stand alone tax statement forms were the only type of stand-alone tax statement forms in use. Effective 1994 and later, there are now two types of stand-alone tax statement forms:

1. Mainframe generated stand alone tax statement forms, and
2. Personal computer (PC) generated stand alone tax statement forms.

Both types of stand-alone tax statement forms are valid and may be used interchangeably.

Both types of stand-alone tax statements were reviewed and approved by the IRS.

Effective January 1996 and later, taxation general information letter (TXL letter) is released with each Mainframe or PC generated stand alone tax statement form sent to the beneficiary by the RRB. There are four separate TXL letters (TXL-1099, TXL-1042S, TXL-1099-R and TXL-1099-R 1991) corresponding to each tax statement type (Form RRB-1099, Form RRB-1042S, Form RRB-1099-R, and Form RRB-1099-R (12-92)). The purpose for each TXL letter is to provide explanations of the box items found on the specific tax statement received by the beneficiary. Therefore, a beneficiary will have the explanations pertinent to their tax statement. See TOM 315.15, TXL Letters - TXL-1099;

TXL-1042S; TXL-1099-R, and TXL-1099-R 1991, for more information concerning each of the TXL letters.

Mainframe produced duplicate tax statements are released separately by the mailroom in RRB headquarters in Chicago, and include the specific TXL letter associated with the duplicate stand alone tax statement released. Therefore, if a beneficiary requests two separate types of tax statements (for example, Form RRB-1099 and Form RRB-1099-R), the mailroom does not place both types of tax statements for the same beneficiary (Form RRB-1099 and Form RRB-1099-R) into the same envelope. The mailroom mails each tax statement separately and there is a chance that the beneficiary may not receive both tax statements at the same time.

#### 1. Mainframe Generated Stand Alone Tax Statement Forms

The Mainframe generated stand alone tax statements are generated from the mainframe computer and are used mostly for duplicate tax statement requests (pressing PF9 - Duplicate Request on the Statement general tax screen (PF15)).

The Mainframe generated stand alone tax statements include:

- Form RRB-1099 (1-98);
- Form RRB-1042S (1-98); and
- Form RRB-1099-R (1-98);

Form RRB-1099-R (1-98) is used for any corrected tax statements requests for tax years 1991 or earlier and any duplicate tax statement requests for tax years 1992 or later. Form RRB-1099-R (12-92) is only used for all duplicate tax statement requests for tax years 1991 or earlier. Requests for duplicate tax statements for tax years 1991 or earlier must be completed through RRAILS; they can no longer be requested through the mainframe.

Prior to December 2006, we sent a supply of blank Mainframe generated stand alone tax statement forms to field offices each December. Effective December 2006 and later, we no longer send a supply of blank Mainframe generated stand alone tax statement forms to field offices.

Samples of the Mainframe generated stand alone tax statement forms are located on the RRB website ([www.rrb.gov](http://www.rrb.gov)) at [http://www.rrb.gov/mainline/Requests/duptaxstmt\\_sample.asp](http://www.rrb.gov/mainline/Requests/duptaxstmt_sample.asp).

## 2. PC Generated Tax Statement Stand Alone Forms

The PC generated stand alone tax statements are used by the examiners in TCIS-TS for any manually produced original or corrected tax statements requests. TCIS-TS examiners rarely use the Mainframe generated statements for any manual action involving tax statements. The PC generated tax statements are printed on white paper in black colored ink only.

There are only three PC generated stand alone tax statement forms. The three PC generated stand alone tax statements are as follows:

- Form RRB-1099 (PC) (1-98);
- Form RRB-1042S (PC) (1-98); and
- Form RRB-1099-R (PC) (1-98).

There is no PC generated stand alone tax statement form for the Form RRB-1099-R (12-92).

### **315.05 Explanation of Items on Forms RRB-1099 and RRB-1042S**

The following are explanations of each item entry on the stand alone tax statement forms: Form RRB-1099 (1-98) and/or Form RRB-1099 (PC) (1-98) are for citizens or legal residents of the United States and Form RRB-1042S (1-98) and/or Form RRB-1042S (PC) (1-98) are for NRAs. These explanations apply to both the Mainframe generated tax statement forms and the PC generated tax statement forms. These explanations are similar to the explanations of items on the back of the citizen and NRA annual automated tax statement mailer packets. There is one copy of Form RRB-1099 and two copies of Form RRB-1042S furnished to the annuitant:

- RRB-1099:

COPY C - For Recipient's Records. Form RRB-1099 Copy C is an informational tax statement; it need not be attached to the beneficiary's U. S. Federal income tax return. The tax statement should be retained by the beneficiary with their tax records. It is recommended that the beneficiary photocopy this tax statement since only one copy of this tax statement is issued.

- RRB-1042S:

**COPY B** - To be filed with the beneficiary's U. S. Federal income tax return (for NRAs only). If a nonresident alien annuitant is required to file a U. S. Federal income tax return, Copy B of the RRB-1042S should be attached to the tax return.

**COPY C** - For Recipient's Records. Form RRB-1042S Copy C is an informational tax statement and should be retained by the beneficiary with their tax records.

The following are explanations of each entry on Form RRB-1099 (for citizens or legal residents of the United States) and Form RRB-1042S (for NRAs).

**CORRECTED/DUPLICATE BOXES** - This item is for both types of stand alone tax statement forms only. This item is not found on the automated original tax statement mailer packets since they are considered "original" tax statements. There are two boxes located at the top left hand side of the stand alone tax statement form indicated as "CORRECTED" or "DUPLICATE." One of these boxes is checked when either a corrected or duplicate Form RRB-1099 or Form RRB-1042S stand alone tax statement is prepared. Both boxes are checked if the stand alone tax statement is for a duplicate of a previously corrected tax statement. Neither box is checked if it is an original tax statement. Each original tax statement is valid unless it has been corrected. A duplicate tax statement is the same as a previously issued original or corrected tax statement. The RRB may issue corrected tax statements (box is checked) if there is an error in original tax statements. Corrected tax statements replace their corresponding original tax statements. Therefore, beneficiaries should use the latest duplicate or corrected tax statement that they received AND any original tax statement that the RRB has not corrected when filing and/or amending their income tax returns.

**UNFOLD TO SEE ALL TAX STATEMENT FORMS** - This phrase will be shown on both the automated citizen and NRA original tax statement mailer packets and the PC generated stand alone tax statement forms (Form RRB-1099 (PC) (1-98) and Form RRB-1042S (PC) (1-98)). This phrase informs the beneficiary to unfold the folded tax statement. This phrase is not shown on the Mainframe generated stand alone tax statements.

**CONTRACTOR QUALITY CONTROL CUT MARKS** - The cut marks only apply to the original citizen tax statement mailer. The cut marks will not be shown on the original NRA tax statement mailers, any Mainframe generated stand alone tax statements, or any PC generated stand alone tax statements. The cut marks on the original citizen mailers are either a black ink dot inside of a blue ink square or just a black ink dot. The cut marks are located in the top left hand corner of the citizen mailer across from the green colored ink phrase, UNFOLD TO SEE ALL TAX STATEMENT FORMS - SEE REVERSE SIDE FOR GENERAL INFORMATION. The cut marks insure that the



contractor correctly images and cuts the original citizen mailer. Refer to TOM 310.05, Tax Statement Mailer Packets, for more information.

**TAX YEAR** - Under the heading "TAX YEAR," the tax year for which the tax statement represents is shown.

**Box 1, CLAIM NO. AND PAYEE CODE:** This item includes the beneficiary symbol and prefix (one to three letters) and claim number (six-digit or nine-digit number). The payee code is a one-digit number ranging from 1-9. Beneficiaries should always give the information contained in this box when they contact the RRB about a tax statement.

**Box 2, RECIPIENT'S IDENTIFICATION NO:** This is the United States taxpayer identifying number (TIN). A TIN is assigned to an individual or Estate by SSA or IRS. A TIN may be the United States social security number (SSN), or United States individual taxpayer identification number (ITIN), or United States employer identification number (EIN) for the person or Estate listed as the recipient. Generally, a SSN is assigned to a United States citizen, an ITIN is assigned to a nonresident alien, and an EIN is assigned to an Estate.

**RECIPIENT'S NAME, STREET ADDRESS, CITY, AND ZIP CODE:** Both the name and mailing address are limited to a total of 59 characters. The mailing address shown is the address that is on RRB records or the address provided by the recipient at the time the tax statement is requested or issued. Recipients should review the mailing address shown on the tax statement. If the mailing address is incorrect or incomplete, the recipient should contact the RRB and provide the RRB with the correct and complete mailing address.

For both the citizen and NRA annual automated original tax statement mailer packets only, the contractor sequence number is located in the recipient's name and mailing address box of Copy C of Form RRB-1099 for citizens and Copy C of Form RRB-1042S for NRAs. The contractor sequence number is printed in a smaller font size and is aligned so that it is printed to the far right of the recipient's name to avoid any potential confusion. The contractor sequence number is printed by the contractor who uses this number as a tool for mailer identification. If there are printing errors on a specific mailer, the contractor uses the sequence number to identify and re-image that same mailer without having to re-image other mailers.

Effective with 1994 and later Form RRB-1099/1099-R automated citizen mailers only, a postal bar-code line will appear above the recipient's mailing address and encoded line in the recipient's name and mailing address box. This postal bar-code is a discount device which reduces the mailing postage costs.

Effective with 2000 and later Form RRB-1099/1099-R automated citizen mailers only, a postal endorsement line will appear immediately above the RRB recipient's name and mailing address box. This postal endorsement line is another discount device that reduces the mailing postage costs and insures that the tax statement gets to the correct mailing address sooner.

NOTE: In order to use a postal bar-code line and endorsement line, the recipient's address box of Copy C of the Form RRB-1099 is widened in order for the entire postal bar-code line and endorsement line to be seen through the envelope window.

NOTE: The contractor's sequence number will not be shown on corrected, duplicate, or manual original stand alone tax statement forms.

**Box 3, GROSS SOCIAL SECURITY EQUIVALENT BENEFIT PORTION OF TIER 1 PAID IN THE YEAR SHOWN ABOVE:** This figure includes the total of the SSEB portion of tier 1 or O/M special guaranty payment made to the beneficiary in the tax year indicated. The amount also includes pre-SSEB and SSEB tier 1 or O/M special guaranty payments made during the tax year that were for prior years.

In addition, the amount of any workers' compensation offset is included in this amount. See Internal Revenue Code (IRC) 86(d)(3) for the definition of RRB tier 1 payments and SSA benefit payments as including any workers' compensation offset amounts by which these payments were reduced. See IRC Section 6050F(a)(1)(C) for the requirement that both agencies (RRB and SSA) report on our annual tax statements the amounts of any workers' compensation offset amounts included as gross payments on the tax statements.

This amount is BEFORE offset for U.S Federal income tax withholding, Medicare premium payments, legal process garnishment deductions, legal process assignment deductions, recovery for current year and/or prior year overpayment(s) of the SSEB portion of tier 1, recovery of RUIA benefits received while awaiting payment of railroad retirement annuity, and Workers' Compensation offset in the SSEB portion of tier 1. It is the amount AFTER offset for social security benefits, age reduction, public service pensions or public disability benefits, dual railroad retirement entitlement under another RRB claim number, work deductions, actuarial adjustments, legal process partition deductions, and annuity waiver.

**Box 4, SOCIAL SECURITY EQUIVALENT BENEFIT PORTION OF TIER 1 REPAYED TO RRB IN THE YEAR SHOWN ABOVE:** This figure is the total of the SSEB portion of tier 1 or O/M special guaranty payments a beneficiary repaid in the tax year indicated on the tax statement for current and prior years by returning a payment (check), direct deposit

payment, by cash refund (full or partial), by full or partial withholding, or by an accrual offset. An accrual offset can be a social security accrual offsetting the SSEB portion of tier 1 or special guaranty overpayment made to another beneficiary.

NOTE: This figure can include repayments made during the tax year indicated on the tax statement for years prior to 1984.

**Box 5, NET SOCIAL SECURITY EQUIVALENT BENEFIT PORTION OF TIER 1 PAID IN THE YEAR SHOWN ABOVE:** This total is the amount in item 3 minus the amount in item 4. A figure in parenthesis is a negative amount.

If this amount is in parenthesis on automated annual tax statements, or is a negative amount on manually PC released tax statements, the beneficiary repaid more in the SSEB portion of tier 1 or O/M (special guaranty) payments than they received or were credited with receiving for the year. On the automated mailers, this item is bolded for easier reference.

NOTE: If a beneficiary is a citizen or legal resident of the United States and received more than one Form RRB-1099 or Form SSA-1099 for a tax year, a figure in parenthesis or negative amount can be used to offset a positive figure in Box 5 of the other Forms RRB-1099 or SSA-1099 for that same tax year. However, this offset cannot be done if the tax statements represent more than one tax year.

NOTE: If a beneficiary is a NRA and received more than one Form RRB-1042S or Form SSA-1042S for a tax year, a figure in parenthesis or negative amount can be used to offset a positive figure in Box 5 of the other Forms RRB-1042S or SSA-1042S for that same tax year. However, this offset cannot be done if the tax statements represent more than one tax year.

To see if any part of the SSEB is taxable, beneficiaries should refer to the Social Security worksheet in the Instructions for Form 1040 and/or 1040A booklet(s) and/or IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits.

**Box 6, WORKERS' COMPENSATION OFFSET IN THE YEAR SHOWN ABOVE:** This figure includes the total amount of Workers' Compensation payments which offsets the beneficiary's SSEB portion of tier 1 or O/M special guaranty payments made during the year.

The beneficiary's SSEB portion of tier 1 or O/M special guaranty tax liability is based on the rates before offset for Workers' Compensation. This amount is shown for informational purposes. It is an IRS reporting requirement and is included in the amount in Box 3.

Refer to the Workers' Compensation Offset section in TOM 300.05, General Information, for additional information.

See Internal Revenue Code (IRC) 86(d)(3) for the definition of RRB tier 1 payments and SSA benefit payments as including any workers' compensation offset amounts by which these payments were reduced. See IRC Section 6050F(a)(1)(C) for the requirement that both agencies (RRB and SSA) report on our annual tax statements the amounts of any workers' compensation offset amounts included as gross payments on the tax statements.

**Box 7, SOCIAL SECURITY EQUIVALENT BENEFIT PORTION OF TIER 1 PAID 1 YEAR PRIOR TO THE YEAR SHOWN ABOVE:** This amount represents the SSEB portion of tier 1 or O/M special guaranty benefits that accrued 1 year prior to the tax year indicated on the tax statement, but were not paid until the tax year indicated on the tax statement. This amount is included in the amount in Box 3.

**Box 8, SOCIAL SECURITY EQUIVALENT BENEFIT PORTION OF TIER 1 PAID 2 YEARS PRIOR TO THE YEAR SHOWN ABOVE:** This amount represents the SSEB portion of tier 1 or O/M special guaranty benefits that accrued 2 years prior to the tax year indicated on the tax statement, but were not paid until the tax year indicated on the tax statement. This amount is included in the amount in Box 3.

**Box 9, SOCIAL SECURITY EQUIVALENT BENEFIT PORTION OF TIER 1 PAID FOR 3 OR MORE YEARS PRIOR TO THE YEAR SHOWN ABOVE:** This amount represents the SSEB portion of tier 1 or O/M special guaranty benefits that accrued for 3 or more years prior to the tax year indicated on the tax statement, but were not paid until the tax year indicated on the tax statement. This amount is included in the amount in Box 3. The entire tier 1 benefit paid prior to 1986 is treated as a social security equivalent benefit.

**Box 10 (RRB-1099 ONLY), FEDERAL INCOME TAX WITHHELD:** This item is the total amount of U.S. Federal income taxes withheld from the SSEB portion of tier 1 or O/M special guaranty payments. Current year SSEB tax refunds have been considered in this total. Prior to tax year 1997, this total is the excess tax withholding that beneficiaries requested in excess of their monthly NSSEB, tier 2, VDB, and supplemental annuity payments that they received. However, effective with tax years 1997 and later, this total is based on the amount of SSEB tax withholding requested on IRS Form W-4V, Voluntary Withholding Request. An amount shown in this box item should be included on beneficiaries' income tax return as tax withheld. If no taxes were withheld, a -0- will be shown. On the automated citizen mailers, this box item is bolded for easier reference.

**CAUTION:** In some cases, a tax withholding amount may be shown in this box even though the beneficiary did not request SSEB tax withholding via IRS Form W-4v. This may happen if the beneficiary previously had taxes withheld from their pension payments (NSSEB, Tier 2, and/or VDB), but the taxability of those payments has since changed. In these cases, the tax withholding amount is applied to the SSEB since that is the only remaining taxable component. This box only includes withholding in excess of the NSSEB, Tier 2, VDB and Supplemental Annuity payments the beneficiary received. The amount of withholding equal to the NSSEB, Tier 2, VDB and Supplemental Annuity payments will be shown in Box 9 on Form 1099-R.

**Box 10 (RRB-1042S ONLY), COUNTRY:** This item contains the country in which an NRA has claimed residency at the time they received railroad retirement payments for tax purposes. If the NRA has changed country of residence or citizenship during the year, the country of residence will be shown here and an original Form RRB-1042S tax statement will be produced for each country of residence or citizenship.

**Box 11 (RRB-1099 ONLY), MEDICARE PREMIUM TOTAL:** This is the total amount of Medicare premiums deducted from the beneficiary's railroad retirement annuity payments during the tax year indicated. This amount is for informational purposes and only applies to tax years 1997 and later. If the Form RRB-1099 is for a tax year prior to tax year 1997, this box item will not be filled even though the beneficiary had Medicare premiums deducted from their railroad retirement annuity payments during that same tax year prior to tax year 1997. Medicare premium refunds will not be included in the Medicare total. For tax year 1997 and later, the Medicare total is normally shown on Form RRB-1099 for citizens and legal residents of the United States. However, if Form RRB-1099 is not required for the tax year indicated, then the Medicare total will be shown in Box 12 on Form RRB-1099-R. If Medicare premiums were deducted from beneficiaries' social security benefits; paid by a third party (i.e., U.S. state); and/or paid by direct billing (quarterly or annually), the Medicare premium total will not be shown in this box item. See TOM 300.15, Medicare Premium Total shown on Tax Year 1997 and Later Tax Statements, for more detailed information.

**Box 11 (RRB-1042S ONLY), RATE OF TAX:** This is the rate at which tax was withheld on the SSEB portion of tier 1 or O/M special guaranty payments paid to NRAs in the tax year shown on the tax statement. The rate of withholding is either 0% or 15% or 30%. If the NRA changed his tax treaty claim during the year and the rate of tax also changed, this item will reflect the applicable rate of tax, and an original Form RRB-1042S tax statement will be produced for each succeeding change.

**Box 12 (RRB-1042S ONLY), FEDERAL INCOME TAX WITHHELD:** This item is the total amount of U.S. Federal income tax withheld from the SSEB portion of tier 1 or O/M

special guaranty payments while the (NRA) beneficiary was a legal resident of the country listed in Box 10, Country. If no taxes were withheld, a -0- will be shown. Current year SSEB tax refunds have been considered in this total. If the country of legal residence and/or tax withholding rate changed during the tax year, the NRA beneficiary will receive more than one original Form RRB-1042S for the tax year. Therefore, the NRA beneficiary should add the amounts in Box 12 of all original Forms RRB-1042S to determine the "total amount" of U.S. Federal income tax withheld for the tax year. On the automated NRA mailers, this item is bolded for easier reference.

Box 13 (RRB-1042S ONLY), MEDICARE PREMIUM TOTAL: This is the total amount of Medicare premiums deducted from the beneficiary's railroad retirement annuity payments during the tax year indicated. This amount is for informational purposes and only applies to tax years 1997 and later. If the Form RRB-1042S is for a tax year prior to tax year 1997, this box item will not be filled even though the beneficiary had Medicare premiums deducted from their railroad retirement annuity payments during that same tax year prior to tax year 1997. Medicare premium refunds will not be included in the Medicare total. For tax year 1997 and later, the Medicare total is normally shown on Form RRB-1042S for NRAs. However, if Form RRB-1042S is not required for the tax year indicated, then the Medicare total will be shown in Box 12 on Form RRB-1099-R. If Medicare premiums were deducted from beneficiaries' social security benefits; paid by a third party (i.e., U.S., state); and/or paid by direct billing (quarterly or annually), the Medicare premium total will not be shown in this box item. See TOM 300.15, Medicare Premium Total shown on Tax Year 1997 and Later Tax Statements, for more detailed information.

### **315.10 Explanation Of Items On Form RRB-1099-R**

Form RRB-1099-R is issued to both citizen and nonresident alien beneficiaries. The following are explanations of each item entry on the Mainframe generated stand alone tax statement Form RRB-1099-R (1-98) and the PC-generated Form RRB-1099-R (PC) (1-98). These explanations are similar to the explanation of items on the back of the citizen and NRA automated mailer packets. There are three copies of Form RRB-1099-R for citizens and two copies of Form RRB-1099-R furnished to nonresident aliens:

- Copy C - For recipients' records. Copy C is an informational statement and should be retained by the beneficiary with their tax records.
- Copy 2 - To be filed with recipient's state, city, or local income tax return (for U.S. citizens only) when required. If a U.S. citizen annuitant is required to file a state, city or local income tax return, Copy 2 of the RRB-1099-R should be attached to the state, city or local income tax return.

According to Section 14 (U.S.C. 45 Section 231m) of the RRA, railroad retirement annuities are not taxable for state income tax purposes.

- Copy B - To be filled with recipient's U. S. Federal income tax return. If an annuitant is required to file a U. S. Federal income tax return and/or Copy B of the RRB-1099-R shows U. S. Federal income tax withheld in Box 9, this copy is attached to the U. S. Federal income tax return.

Form RRB-1099-R format changed due to the elimination of the General Rule provisions. The RRB no longer provides the nontaxable amount of railroad retirement annuities. Effective January 1, 1993, and later, all original and corrected tax statements will either be done on Form RRB-1099-R (1-98) or Form RRB-1099-R (PC) (1-98). Effective January 1, 1995, and later, a corrected Form RRB-1099-R (1-98) will be issued on the PC-generated Form RRB-1099-R (PC) (1-98) if TCIS-TS handles the correction. Any duplicate tax statement requested for a Form RRB-1099-R that was created after January 1, 1993, will be issued on either a stand alone Form RRB-1099-R (1-98) or PC generated Form RRB-1099-R (PC) (1-98).

Form RRB-1099-R (12-92) will be issued only when a duplicate tax statement is requested for a Form RRB-1099-R (12-92) that was created prior to December 31, 1992. In summary, Form RRB-1099-R (12-92) is only used for all duplicate tax statement requests for tax years 1991 or earlier. Form RRB-1099-R (1-98) or Form RRB-1099-R (PC) (1-98) are used for any corrected tax statement requests for tax years 1991 or earlier and any duplicate tax statement requests for tax years 1992 or later.

### **Mainframe Generated Stand Alone Form and PC-Generated Form RRB 1099-R (1-98)**

The following are explanations of each entry on the Mainframe generated stand alone form RRB-1099-R (1-98) and the PC generated form RRB 1099-R (PC) (1-98):

**CORRECTED/DUPLICATE BOXES** - This item is for both types of stand-alone tax statement forms only. This item is not found on the automated mailer packets since they are considered as "original" tax statements. There are two boxes located at the top left hand side of the stand alone tax statement form indicated as "CORRECTED" or "DUPLICATE." One of these boxes is checked when either a corrected or duplicate Form RRB-1099-R stand alone tax statement is prepared. Both boxes are checked if the stand alone tax statement is for a duplicate of a previously corrected tax statement. Neither box is checked if it is an original tax statement. Each original tax statement is valid unless it has been corrected. A duplicate tax statement is the same as a

previously issued original or corrected tax statement. The RRB may issue corrected tax statements if there is an error in the original tax statements. Corrected tax statements replace their corresponding original tax statements. Therefore, beneficiaries must use the latest duplicate or corrected tax statement received AND any original tax statement that the RRB has not corrected when filing and/or amending their income tax returns.

UNFOLD TO SEE ALL TAX STATEMENT FORMS - This phrase will be shown on both the automated citizen and NRA original tax statement mailer packets and the PC-generated stand alone tax statement form, Form RRB-1099-R (PC) (1-98). This phrase informs the beneficiary to unfold the folded tax statement.

CONTRACTOR QUALITY CONTROL CUT MARKS - The cut marks only apply to and are shown on the automated citizen tax statement mailer. The cut marks will not be shown on the automated NRA tax statement mailers, any Mainframe generated stand alone tax statements, or any PC generated stand alone tax statements. The cut marks on the automated citizen mailer are either be a black ink dot inside of a blue ink square or just a black ink dot. The cut marks are located in the top left hand corner of the citizen mailer across from the green colored ink phrase, UNFOLD TO SEE ALL TAX STATEMENT FORMS - SEE REVERSE SIDE FOR GENERAL INFORMATION. The cut marks insure that the contractor correctly images and cuts the automated citizen mailer. Refer to TOM 310.05, Tax Statement Mailer Packets, for more information.

TAX YEAR - Under the heading "TAX YEAR," the tax year for which the tax statement represents is shown.

Box 1, CLAIM NO. AND PAYEE CODE: This item includes the beneficiary symbol and prefix (one to three letters); and claim number (six-digit or nine-digit number). The payee code is a one-digit number ranging from 1-9. Beneficiaries should always give the information contained in this box when they contact the RRB about a tax statement.

Box 2, RECIPIENT'S IDENTIFICATION NO: This is the United States taxpayer identifying number (TIN). A TIN is assigned to an individual or Estate by SSA or IRS. A TIN may be the United States social security number (SSN), or United States individual taxpayer identification number (ITIN), or United States employer identification number (EIN) for the person or Estate listed as the recipient. Generally, a SSN is assigned to a United States citizen, an ITIN is assigned to a nonresident alien, and an EIN is assigned to an estate.

RECIPIENT'S NAME, STREET ADDRESS, CITY, AND ZIP CODE: Both the name and address line are limited to 59 characters. The mailing address shown is the address that is on RRB records OR the address provided by the recipient at the time the tax



statement is requested or issued. Recipients should review the mailing address shown on the tax statement. If the mailing address is incorrect or incomplete, the recipient should contact the RRB and provide the RRB with the correct and complete mailing address.

**Box 3, EMPLOYEE CONTRIBUTIONS:** This is the amount of railroad retirement payroll taxes paid by the railroad employee that exceeds the amount that would have been paid in social security payroll taxes if the railroad employee's railroad service had been covered under the Social Security Act. This amount is not a payment or income that the beneficiary received in the tax year indicated. The IRS refers to this amount as an employee's investment in the contract (cost). The employee contribution amount is shown on the Contribution and Recovered Data (CONTRI/RECV, PF 17) general tax screen.

Only employee and survivor annuitants receive (show) an employee contribution amount on their Form RRB-1099-R. Spouse, divorced spouse and legal process partition payees will not receive or show an employee contribution amount on their Form RRB-1099-R. If an employee contribution amount is shown on Form RRB-1099-R, the annuitant may be eligible to use some, or the total employee contribution amount. If an employee contribution amount is not shown on Form RRB-1099-R, the annuity is not eligible to use or share any employee contribution amount, and their contributory amount paid and total gross paid amount are fully taxable.

**Refer to the Contributory Amount Paid section and the Employee Contribution sections in TOM 300.05, General Information, for additional information concerning the use of the employee contribution amount to reduce the taxability of the contributory amount paid.**

Due to modifications to the automated tax systems, we are now able to report a more accurate employee contribution amount. The amount of the employee contributions shown in this box item is the latest amount reported. In prior years, we were only able to show employee contribution amounts which either increased or came onto the tax records for the first time. We are now able to report employee contribution amounts which also decreased. Therefore, if a beneficiary previously received a tax statement, this amount may have increased or decreased from the previously sent tax statement due to adjustments in the employee contribution amount. If the employee contributions amount reported on the latest received (or dated) Form RRB-1099-R is different from a previously received Form RRB-1099-R, the beneficiary should may need to file an original or an amended income tax return(s) using the employee contributions amount reported on the latest received (or dated) Form RRB-1099-R.

A change in the employee contributions may affect the nontaxable portion of the beneficiary's NSSEB/tier 2 payment. The beneficiary may need to recompute the nontaxable amount as explained in IRS Publication 575, Pension and Annuity Income and/or IRS Publication 939, General Rule for Pensions and Annuities. The total contributions shown have not been reduced by any amounts that the RRB previously calculated as recovered. If a beneficiary had a previous annuity entitlement that terminated and the beneficiary is calculating a nontaxable pension amount under the General Rule for their current annuity entitlement, the beneficiary should contact the RRB for confirmation of the correct employee contribution amount. However, if this box is blank, it means that the beneficiary has recovered all of their contributions as of December 31, 1991, and the beneficiary's NSSEB/tier 2 payment is fully taxable or the beneficiary is a spouse or divorced spouse whose NSSEB/tier 2 payment is fully taxable. Since we now use the General Rule method, the RRB no longer provides the employee contribution recovery information on the general tax screens.

The contributory amount paid (NSSEB and tier 2) is considered income and is reported to the IRS. The contributory amount paid (explained in Box 4 below) is either fully or partially taxable depending on whether the employee contribution amount has been used to compute a tax-free portion of the contributory amount paid. The use and recovery of the employee contribution amount is important for annuitants since it affects the amount of taxable income to be reported on income tax returns for a tax year. There is a tax savings advantage in using (recovering) employee contributions since it will reduce the taxability of the contributory amount paid and in turn the amount of taxable income. Annuitants should refer to IRS Publication 575, Pension and Annuity Income, and Publication 939, General Rule for Pensions and Annuities, for more information concerning the tax treatment of the contributory amount paid and use of the employee contribution amount.

**Box 4, CONTRIBUTORY AMOUNT PAID:** This is the gross amount of any NSSEB and any tier 2 benefits paid in the tax year indicated less any NSSEB and tier 2 repayments for that tax year and are attributed to that tax year. It is the sum of the NSSEB and tier 2 benefits. If the year for which the NSSEB and tier 2 repayment is for an earlier year or not known, that repayment amount will appear in Box 8. The amount in Box 4 is the total contributory pension paid for the tax year indicated and can be used by employees and survivors of deceased employees covered under General Rule provisions to compute their taxable NSSEB and taxable tier 2 amounts. Contributory pension amounts (NSSEB and tier 2) may be fully taxable or partially taxable depending on the presence and use of the employee contribution amount. For more information, beneficiaries should obtain IRS Publication 575, Pension and Annuity Income, and/or IRS Publication 939, General Rule for Pensions and Annuities. The amount is BEFORE offset for U.S. Federal income tax withholding, Medicare premium deductions, legal process

garnishment deductions, legal process assignment deductions, recovery of a “prior year” overpayment of NSSEB and/or tier 2, and recovery of RUIA benefits received while awaiting payment of the railroad retirement annuity. It is the amount AFTER offset for social security benefits, age reduction, public service pensions or public disability benefits, dual railroad retirement entitlement under another RRB claim number, work deductions, actuarial adjustments, annuity waivers, recovery of a known “current year” overpayment of NSSEB, and/or tier 2, and legal process partition deductions. It is also the amount after Workers' Compensation offset for the NSSEB portion of tier 1 only. The contributory amounts paid of disabled employee annuitants under minimum retirement age are fully taxable. Minimum retirement age is generally the age at which individuals could retire based on age and service (age 60 with 30 or more years of railroad service or age 62 with less than 30 years of railroad service). Employees who retired based on age and service and disabled employee annuitants who reach minimum retirement age may use the employee contribution amount shown on their Form RRB-1099-R to compute a tax-free portion of their contributory amount paid. Refer to the explanation for Box 3, Employee Contributions, above for more information on the use of the employee contribution and impact on the contributory amount paid.

**Refer to the Contributory Amount Paid section and the Employee Contribution sections in TOM 300.05, General Information, for additional information concerning the use of the employee contribution amount to reduce the taxability of the contributory amount paid.**

Box 5, VESTED DUAL BENEFIT: This is the gross amount of vested dual benefit (VDB) payments made in the tax year indicated on the statement to the beneficiary less any VDB repayment for that tax year and attributed to that tax year. If the year for which the VDB repayment was made is for an earlier year or not known, the amount will appear in Box 8. VDB is considered a noncontributory pension amount. It is fully taxable for U.S. Federal income tax purposes.

The amount in this box is BEFORE offset for U.S. Federal income tax withholding, Medicare premium deductions, legal process garnishment deductions, legal process assignment deductions, recovery of a “prior year” overpayment of VDB, and recovery of RUIA benefits received while awaiting payment of the railroad retirement annuity. It is the amount AFTER offset for social security benefits, age reduction, public service pensions or public disability benefits, dual railroad retirement entitlement under another RRB claim number, work deductions, actuarial adjustments, annuity waivers, recovery of a known “current year” overpayment of VDB, and legal process partition deductions.

Box 6, SUPPLEMENTAL ANNUITY: This is the gross amount of supplemental annuity payments made during the tax year indicated on the statement less any supplemental

annuity repayment for that tax year and attributed to that tax year. If the year for which the supplemental annuity repayment was made is for an earlier year or not known, the amount will appear in Box 8. Supplemental annuity is considered a noncontributory pension amount. It is fully taxable for U.S. Federal income tax purposes.

The amount in this box is BEFORE offset for U.S. Federal income tax withholding, Medicare premium deductions, legal process garnishment deductions, legal process assignment deductions, recovery of a "prior year" overpayment of supplemental annuity benefits, and recovery of RUIA benefits received while awaiting payment of the railroad retirement annuity. It is the amount AFTER offset for social security benefits, age reduction, public service pensions or public disability benefits, dual railroad retirement entitlement under another RRB claim number, work deductions, actuarial adjustments, annuity waivers, recovery of a known "current year" overpayment of supplemental annuity benefits, and legal process partition deductions.

Box 7, TOTAL GROSS PAID: This total is the sum of the amounts shown in Boxes 4, 5, and 6 (i.e., the sum of the NSSEB portion of tier 1, tier 2, VDB and supplemental annuity gross amounts). The amount represents the total pension paid for the tax year indicated. On the automated mailers, this item is bolded for easier reference. The amount in this box is BEFORE offset for the deductions for U.S. Federal income tax withholding, Medicare premium deductions, legal process garnishment deductions, legal process assignment deductions, recovery of a "prior year" overpayment of NSSEB, tier 2, VDB or supplemental annuity benefit, and recovery of RUIA benefits received while awaiting payment of the railroad retirement annuity. It is the amount AFTER offset for social security benefits, age reduction, public service pensions or public disability benefits, dual railroad retirement entitlement under another RRB claim number, work deductions, actuarial adjustments, annuity waivers, recovery of a known "current year" overpayment of NSSEB, tier 2, VDB, or supplemental annuity benefit, and legal process partition deductions. **The amount shown in this box may be partially taxable or fully taxable depending on the presence and use of the employee contribution amount.**

Box 8, REPAYMENTS: Prior to January 1, 1996, the title heading in this box item was "PRIOR YEAR REPAYMENTS." Therefore, the Mainframe generated stand alone Form RRB-1099-R (1-93) had this box item entitled "PRIOR YEAR REPAYMENTS."

Effective January 1, 1996 and later, the title heading in this box item was renamed to "REPAYMENTS." Therefore, the automated citizen and NRA tax statement mailer packets for tax years 1995 and later and the PC-generated Form RRB-1099-R (PC) (1-98) have this box item entitled "REPAYMENTS." Effective January 1, 1998 and later, the Mainframe generated stand alone Form RRB-1099-R (1-98) was revised and the

title heading of this box item was renamed to "REPAYMENTS." We renamed this box item for consistency and to better represent the amount shown in this box.

This amount in this box item represents the sum of repayments for prior (earlier) years and repayments that we have not identified as a current year repayment made to RRB in the tax year indicated. This box reflects the total gross repayments of the NSSEB portion of tier 1, tier 2, VDB and/or supplemental annuity benefits received in the tax year indicated on the Form RRB-1099-R for prior (earlier) years, or NSSEB portion of tier 1, tier 2, VDB and/or supplemental annuity repayments that we have not identified as a current year repayment made to the RRB in the tax year indicated on the Form RRB-1099-R. However, if we do not know that the repayment is for years before 1984, then it may be shown here.

The amount shown in this box item has not been deducted from the current year gross amounts in Boxes 4, 5, or 6 of Form RRB-1099-R.

A repayment is a return or recovery to the RRB of an amount previously paid. Only repayments that are attributable for the tax year indicated on the tax statement can be considered toward that tax year's taxes. Please refer to TOM 330, Repayments on Tax Statements, for more information.

Repayments attributable to payments prior to the tax year indicated on the tax statement are to be referred to the IRS and handled according to IRS Publication 575, Pension and Annuity Income, and/or IRS Publication 525, Taxable and Nontaxable Income. It may be necessary to contact TCIS-TS to identify for which period the overpayment occurred.

**Box 9, FEDERAL INCOME TAX WITHHELD:** This is the total amount of U.S. Federal income tax withheld from the NSSEB portion of tier 1, tier 2, vested dual benefit, and supplemental annuity payments during the tax year indicated on the tax statement. If an amount is shown in this box item, then the amount should be included on the beneficiaries' income tax statements as tax withheld. If no taxes were withheld, an -0- should be shown. Current year NSSEB, tier 2, VDB and/or supplemental annuity tax refunds have been considered in this total. If the beneficiary is a NRA and his/her country of legal residence and/or tax withholding rate changed during the tax year, the NRA beneficiary will receive more than one original Form RRB-1099-R for the tax year. Therefore, the NRA beneficiary should add the amounts in Box 9 of all original Forms RRB-1099-R to determine the "total amount" of U.S. Federal income tax withheld for the tax year. On the automated mailers, this box item is bolded for easier reference.

**CAUTION:** Prior to tax year 1997, this box only included tax withholding up to the amount of NSSEB, Tier 2, VDB and Supplemental Annuity payments received. If a request for the withholding amount was greater than the total NSSEB, Tier 2, VDB and Supplemental Annuity amount, then the additional withholding was shown in Box 10 on Form RRB-1099. However, effective with tax year 1997, a request for a withholding amount greater than the total NSSEB, Tier 2, VDB and Supplemental Annuity amount cannot be applied to the SSEB portion of Tier 1. This is because a beneficiary must file an IRS Form W-4v, voluntary withholding request, to request SSEB tax withholding. In some cases, a tax withholding amount may be shown in Box 10 of Form RRB-1099 even though the beneficiary did not request SSEB tax withholding via IRS Form W-4v. This may happen if the beneficiary previously has taxes withheld from their pension payments (NSSEB, Tier 2, and/or VDB), but the taxability of those payments has since changed. In these cases, the tax withholding amount is applied to the SSEB since that is the only remaining taxable component.

**Box 10, RATE OF TAX:** This item should be blank for citizens or legal residents of the United States. This entry applies to NRAs only. An entry in this item indicates the rate at which tax was withheld on the NSSEB, tier 2, VDB, and supplemental annuity payments during the tax year indicated on the statement. The NRA rate of tax should be either 0%, 15%, or 30%. If the NRA changed countries of residence or citizenship during the year and the rate of tax also changed, then more than one original Form RRB-1099-R tax statement will be released.

**Box 11, COUNTRY:** This item should be blank for citizens or legal residents of the United States. This entry applies to NRAs only. An entry in this item indicates the country of which the NRA is a resident at the time railroad retirement payments were issued for tax purposes. If the NRA has changed his/her country of residence during the year, then more than one original Form RRB-1099-R tax statement will be released.

**Box 12, MEDICARE PREMIUM TOTAL:** This is the total amount of Medicare premiums deducted from the beneficiary's railroad retirement annuity payments during the tax year indicated. This amount is for informational purposes and only applies to tax years 1997 and later. If the Form RRB-1099-R is for a tax year prior to tax year 1997, this box item will not be filled even though the beneficiary had Medicare premiums deducted from his/her railroad retirement annuity payments during that same tax year prior to tax year 1997. Medicare premium refunds will not be included in the Medicare total. For tax year 1997 and later, the Medicare total is normally shown on Form RRB-1099 (for citizens) or Form RRB-1042S (for NRAs). However, if Form RRB-1099 or Form RRB-1042S is not required for the tax year indicated, then the Medicare total will be shown in Box 12 on Form RRB-1099-R since that is the only tax statement that the beneficiary will receive. If Medicare premiums were deducted from beneficiaries' social security benefits; paid by

a third party (i.e., U.S. state); and/or paid by direct billing (quarterly or annually), the Medicare premium total will not be shown in this box item. See TOM 300.15, Medicare Premium Total shown on Tax Year 1997 and Later Tax Statements, for more detailed information.

### **Stand Alone Form RRB-1099-R (12-92)**

The following are explanations of each item entry on the stand alone Form RRB-1099-R (12-92) (this form can only be requested thru RRAILS):

**CORRECTED/DUPLICATE BOXES** - There are two boxes on the top left hand side of the form indicating "CORRECTED" OR "DUPLICATE." Effective January 2, 1993, only the duplicate box is checked when duplicate, duplicate of a corrected, or duplicate of a duplicate RRB-1099-R tax statement created prior to December 31, 1992, is requested (see TOM 320, Duplicate Statements). Each original tax statement is valid unless it has been corrected. A duplicate tax statement is the same as a previously issued original or corrected tax statement. The RRB may issue corrected tax statements (box is checked) if there is an error in original tax statements. Corrected tax statements replace their corresponding original tax statements. Therefore, beneficiaries should use the latest duplicate or corrected tax statement that they received AND any original tax statement that the RRB has not corrected when filing and/or amending their income tax returns. This form is not used for any original, corrected, or PC generated tax statements created January 2, 1993, or later.

There is no PC generated Form RRB-1099-R (12-92) and there is no phrase printed at the top of the Form RRB-1099-R (12-92) informing the beneficiary to unfold to see all tax statement forms.

In addition, there is no MEDICARE PREMIUM TOTAL box item on Form RRB-1099-R (12-92) since this tax statement is for tax years prior to tax year 1992 and we will only report the Medicare premium total for tax years 1997 and later.

This version of the Form RRB-1099-R is only used for tax year 1991 and earlier so the volume of this tax statement is low. We only use this tax statement version for duplicate tax statement requests for tax years 1991 and earlier. Between calendar years 2000 and 2005, we issued an average of 17 duplicate Form RRB-1099-R (12-92) per year. As the years go on, this volume of use for this tax statement version will decrease to zero.

**TAX YEAR** - Under the heading "TAX YEAR," the tax year for which the tax statement represents is shown.

**Box 1, CLAIM NO. AND PAYEE CODE:** This item includes the beneficiary symbol and prefix (one to three letters) and claim number (six-digit or nine-digit number). The payee code is a one-digit number ranging from 1-9. Beneficiaries should always give the information contained in this box when they contact the RRB about a tax statement.

**Box 2, RECIPIENT'S IDENTIFICATION NO:** This is the United States taxpayer identifying number (TIN). A TIN is assigned to an individual or Estate by SSA or IRS. A TIN may be the United States social security number (SSN), or United States individual taxpayer identification number (ITIN), or United States employer identification number (EIN) for the person or Estate listed as the recipient. Generally, a SSN is assigned to a United States citizen, an ITIN is assigned to a nonresident alien, and an EIN is assigned to an Estate.

**RECIPIENT'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE:** Both the name and address line are limited to 59 characters. The mailing address shown is the address that is on RRB records OR the address provided by the recipient at the time the tax statement is requested or issued. Recipients should review the mailing address shown on the tax statement. If the mailing address is incorrect or incomplete, the recipient should contact the RRB and provide the RRB with the correct and complete mailing address.

**Box 3, TOTAL CONTRIBUTIONS RECOVERED THROUGH THE YEAR SHOWN ABOVE:** This amount is only shown when the employee's contributions were not recovered before the year of the tax statement. This amount should be the same for all beneficiaries on a claim number.

In Three-Year Rule cases, this box contains the total amount of any non-social security equivalent benefit (NSSEB) portion of tier 1 and any tier 2 annuity portion paid to all beneficiaries on one claim number from the ABD through the tax year indicated on the statement. In General rule cases, this box contains the total nontaxable non-social security benefit (NSSEB) portion of tier 1 and the nontaxable tier 2 portion paid from the ABD through the tax year indicated. Inform beneficiaries to refer to IRS Publication 575, Pension and Annuity Income, and/or IRS Publication 939, General Rule for Pensions and Annuities, for more information.

**Box 4, EMPLOYEE CONTRIBUTIONS:** This is the amount of railroad retirement payroll taxes paid by the railroad employee that exceeds the amount that would have been paid in social security payroll taxes if the railroad employee's railroad service had been covered under the Social Security Act. Essentially, this is the tier 2 tax plus excess FICA taxes paid. The IRS refers to this amount as an employee's investment in the contract (cost). This amount is not a payment or income that the beneficiary received in



the tax year indicated. The amount of the employee contributions shown in this box item is the latest amount reported. The employee contributions amount is shown on the Contribution and Recovered Data (CONTRI/RECV, PF 17) general tax screen. This amount is the total amount of the employee's contributions shown only when the contributions were not recovered before the tax year indicated on the statement. If the employee contributions amount reported on the latest received (or dated) Form RRB-1099-R is different from a previously received Form RRB-1099-R, the beneficiary should may need to file an original or an amended income tax return(s) using the employee contributions amount reported on the latest received (or dated) Form RRB-1099-R.

If beneficiaries are using the Simplified General Rule method to compute the taxable/nontaxable NSSEB/tier 2, this amount is considered the employee's cost in the contract. The beneficiary should contact the RRB ONLY IF the beneficiary had a previous annuity entitlement that terminated and the beneficiary is calculating a nontaxable pension amount under the General Rule for the beneficiary's correct employee contribution amount. Inform beneficiaries to refer to IRS Publication 575, Pension and Annuity Income, and/or IRS Publication 939, General Rule for Pensions and Annuities, for more information.

Box 5, CONTRIBUTIONS RECOVERED: For Three-Year Rule cases or 1987 General Rule cases, an "X" is shown in either the "Yes" or "No" box for this item. It indicates whether the employee's contributions have been recovered. If neither box is checked, this indicates that payments with annuity beginning dates from July 2, 1986, through December 31, 1986, are under the 1986 General Rule. These payments have a permanent nontaxable amount and employee contribution recovery is not considered. A check in either the Three-Year Rule or General Rule box indicates which rule is applicable. Inform beneficiaries to refer to IRS Publication 575, Pension and Annuity Income, and/or IRS Publication 939, General Rule for Pensions and Annuities, for more information.

Box 6, RATE OF TAX: This entry applies to NRAs only. It is the latest rate at which their NSSEB portion of tier 1, tier 2, vested dual benefits and supplemental annuity is taxed. This item should be blank for U.S. citizens and residents. The NRA rate of tax should be either 0%, 15%, or 30%. If the NRA changed countries of residence or citizenship during the year and the rate of tax also changed, this item will reflect the latest applicable rate of tax.

Box 7, FEDERAL TAX WITHHELD: This is the total amount of U.S. Federal income taxes withheld from the NSSEB portion of tier 1, tier 2, vested dual benefit and

supplemental annuity payments during the tax year indicated on the statement. If no taxes were withheld, a -0- should be shown.

Box 8, COUNTRY: This entry applies to NRAs only. It contains the country in which the NRA has claimed residency during the year. If the NRA has changed their country of residence during the year, the latest country of residence will be shown here.

Box 9, TAXABLE CONTRIBUTORY AMOUNT: This is the gross amount of any taxable NSSEB portion of tier 1 and any taxable tier 2 benefits paid in the tax year indicated on the statement less any repayments for that tax year. If the year for which the NSSEB and tier 2 repayment was made is not known, the amount will appear in box 13. Any nontaxable NSSEB portion of tier 1 and any nontaxable tier 2 benefits are not included in this amount. Therefore, this box may contain an amount less than the annuitant actually received. If payments received in the tax year indicated on the statement are not taxable, an -0- will be shown in this box. Inform beneficiaries to refer to IRS Publication 575, Pension and Annuity Income, and/or IRS Publication 939, General Rule for Pensions and Annuities, for more information.

The amount is BEFORE U.S. Federal income tax withholding, Medicare premium deductions, legal process garnishment deductions, legal process assignment deductions, recovery of a "prior year" overpayment of NSSEB and/or tier 2, and recovery of RUIA benefits received while awaiting payment of the railroad retirement annuity. It is the amount AFTER work deductions, actuarial adjustments, annuity waivers, and legal process partition deductions, and recovery of a "current year" overpayment of NSSEB and/or tier 2. It is also the amount after Workers' Compensation offset for the NSSEB portion of tier 1 only.

Box 10, TAXABLE VESTED DUAL BENEFIT: This is the total of the gross taxable vested dual benefit (VDB) payments made in the tax year indicated on the statement to the beneficiary less any VDB repayment for that tax year. If the year for which the VDB repayment was made is not known, the amount will appear in Box 13.

The amount is BEFORE U.S. Federal income tax withholding, Medicare premium deductions, legal process garnishment deductions, legal process assignment deductions, recovery of a "prior year" overpayment of VDB, and recovery of RUIA benefits received while awaiting payment of the railroad retirement annuity. It is the amount AFTER work deductions, actuarial adjustments, annuity waivers, and legal process partition deductions, and recovery of a "current year" overpayment of VDB.

Box 11, TAXABLE SUPPLEMENTAL ANNUITY: This is the total of the gross taxable supplemental annuity payments made during the tax year indicated on the statement

less any supplemental annuity repayment for that tax year. If the year for which the supplemental annuity repayment was made is not known, the amount will appear in Box 13.

The amount is BEFORE U.S. Federal income tax withholding, Medicare premium deductions, legal process garnishment deductions, legal process assignment deductions, recovery of a "prior year" overpayment of supplemental annuity benefit, and recovery of RUIA benefits received while awaiting payment of the railroad retirement annuity. It is the amount AFTER work deductions, actuarial adjustments, annuity waivers, and legal process partition deductions, and recovery of a "current year" overpayment of supplemental annuity benefit.

Box 12, TOTAL GROSS TAXABLE: This total is the sum of the amounts shown in boxes 9, 10 and 11 (i.e., the sum of the NSSEB portion of tier 1, tier 2, vested dual benefit, and supplemental annuity gross taxable amounts). The amount is BEFORE U.S. Federal income tax withholding, Medicare premium deductions, legal process garnishment deductions, legal process assignment deductions, recovery of a "prior year" overpayment of NSSEB, tier 2, VDB, and supplemental annuity benefit, and recovery of RUIA benefits received while awaiting payment of the railroad retirement annuity. It is the amount AFTER work deductions, actuarial adjustments, annuity waivers, and legal process partition deductions, and recovery of a "current year" overpayment of NSSEB, tier 2, VDB, and supplemental annuity benefit.

Box 13, TOTAL REPAID: This figure represents the total taxable repayments made to the RRB during the tax year indicated on the statement for prior years. This box reflects the total taxable repayments of the NSSEB portion of tier 1, tier 2, vested dual benefit and supplemental annuity benefits received in the tax year indicated on the statement for prior years or for the tax year indicated on the statement, if it cannot be identified as a repayment for that tax year. The repayment cannot be for years before 1984.

If a repaid amount is shown in this item, it will be necessary to identify for the beneficiary the years for which the repayments apply. Only repayments that are attributable for the tax year indicated on the statement can be considered toward that tax year's taxes.

Refer to TOM 330, Repayments on Tax Statements, for more information.

Repayments attributable to payments prior to the tax year indicated on the statement are to be referred to IRS and handled according to IRS Publication 575, Pension and Annuity Income, and/or IRS Publication 525, Taxable and Nontaxable Income. It may be necessary to contact TCIS-TS to identify for which period the overpayment occurred.

**Box 14, CONTRIBUTORY AMOUNT PAID:** This is the total amount of the Gross NSSEB and the Gross tier 2 benefits paid during the tax year indicated on the statement. This is included for use by employee and survivor annuitants in computing the Simplified General Rule. Inform beneficiaries to refer to IRS Publication 575, Pension and Annuity Income, and/or IRS Publication 939, General Rule for Pensions and Annuities, for more information.

**Box 15, NUMBER OF MONTHLY PAYMENTS:** This is the number of monthly payments received in the tax year indicated on the statement. This figure is provided for use by employee and survivor annuitants in computing the Simplified General Rule. An asterisk (\*) will be shown when the number of monthly payments cannot be determined by the automated system.

In some situations, the number of monthly payments displayed in box 14 may not be accurate. This may happen:

- In partial to final recertifications, when retroactive payments for prior to the tax year indicated on the statement were paid in that tax year; the number of months prior to the tax year indicated on the statement should be counted in that tax year if these payments were not previously considered in calculating the nontaxable amount. This can occur if the recertification crosses tax years and the recert annuity beginning date (ABD) is earlier than the partial award ABD.

**EXAMPLE:** An employee is paid a partial award effective October 1989. A final recertification award is paid in June 1990 which retroacts to July 1989. The months of October 1989 through December 1989 were counted as payment months for 1989 and should not be counted again for 1990. For tax year 1990, the number of payment months should include July 1989 through September 1989 and any payments months paid in 1990.

- When payments are returned for which a tax liability is not charged, the month(s) that the payment(s) represent should not be included in the number of monthly payments used for Simplified General Rule computation. Since we cannot determine the number of months included in the returned payment(s), the number of monthly payments will be shown before any returned payment(s).

**EXAMPLE:** A check dated October 1, 1990, was sent out and returned due to the death of an annuitant in September 1990. Ten monthly payments were counted and are shown on the tax statement. This number is before the returned check is subtracted. Only nine monthly payments should have been shown on the tax statement.

This inflated count not only occurs in death terminations, but can also occur in other situations involving erroneously released final payments to some employees and survivors.

### **315.15 TXL Letters - TXL-1099, TXL-1042S, TXL-1099-R and TXL-1099-R 1991**

In January 1996, Policy and Systems-PAS created four separate Tax Statement General Information letters for each type of mainframe generated or PC generated stand alone tax statement forms (Form RRB-1099, Form RRB-1042S, Form RRB-1099-R, and Form RRB-1099-R (12-92)). The purpose for each of these TXL letters is to provide general information and explanations of box items found on the specific stand alone tax statement received by the beneficiary. Therefore, a beneficiary will have the explanations pertinent to his/her tax statement thus avoiding explanations for tax statements that the beneficiary did not receive. In addition, Headquarters and field office personnel release the TXL letters to individuals and/or organizations (i.e. attorneys, tax preparers, IRS/AARP tax instructor volunteers for the elderly) requesting written tax information concerning tax statements.

The current TXL letters have a revision date of (02-2012). Any TXL letters with a revision date prior to (02-2012) are obsolete. These TXL letters are on the RRAILS system and in the RRB website ([www.rrb.gov](http://www.rrb.gov)).

The TXL letters are not sent with the automated citizen and NRA annual tax statement mailer packets released by January 31 each year since the back side of the packets already contains general information and explanations of items on each tax statement form. Therefore, the TXL letters are used only in conjunction with all duplicate and manually produced mainframe generated and PC generated stand alone tax statement forms.

Effective January 1996 and later, TXL letters are released by Headquarters and field office personnel with each stand alone tax statement forms.

The TXL letters are:

1. TXL-1099 which explains the Form RRB-1099 tax statement;
2. TXL-1042S which explains the Form RRB-1042S tax statement;
3. TXL-1099-R which explains the Form RRB-1099-R tax statement;
4. TXL-1099-R 1991 which only explains the Form RRB-1099-R (12-92).

Form RRB-1099-R (12-92) and its corresponding TXL-1099-R 1991 are used only for duplicate tax statement requests for tax years 1991 and earlier.

The content of the TXL letters comes from the general information section and the explanation of items section on the automated citizen and NRA annual tax statement mailer packets released each January.

The chart below should be used by headquarters and field office personnel as a guide in determining which TXL letters to use with the mainframe generated or PC generated stand alone tax statements:

#	TAX STATEMENT	CORRESPONDING TL or TXL FORM
1.	Form RRB-1099	TXL-1099
	Form RRB-1099 (PC)	TXL-1099
2.	Form RRB-1042S	TXL-1042S
	Form RRB-1042S (PC)	TXL-1042S
3.	Form RRB-1099-R	TXL-1099R
	Form RRB-1099-R (PC)	TXL-1099R
4.	Form RRB-1099-R (12-92)	TXL-1099R (1991)

TXL letters are used for both the mainframe generated and PC generated tax stand alone tax statement forms.

Headquarters and field office personnel should pay special attention to the difference in use between the TXL-1099-R and the TXL-1099-R 1991 in order to prevent any confusion. Although the TXL titles are slightly similar, the TXL-1099-R is associated with the Form RRB-1099-R (1-98 version) tax statement, while the TXL-1099-R 1991 is only associated with the Form RRB-1099-R (12-92 version) tax statement. For easy identification, the tax statement form titles (i.e. Form RRB-1099-R (12-92)) are in bold print and are located in the bottom left hand corner of each tax statement.

All TXL letters have the following characteristics:

1. The TXL letters measure 8.5" by 11".
2. The RRB's address, eagle insignia and TXL letter number and version date will be printed on the top front side of each TXL letter.
3. The TXL letters will be printed in black ink on white paper.
4. General tax statement explanations will be on the front side and the explanations of each box item on the tax statement will be on the back side of the TXL letter.
5. On each TXL letter, we inform recipients (beneficiaries) of tax statements to review the mailing address shown on the tax statements. If the mailing address shown is incorrect or incomplete, we ask recipients to contact the RRB and provide the RRB with the correct and complete mailing address.
6. The TXL letters will be pre-folded (tri-folded) for easy insertion into envelopes. The top fold will contain the RRB's address, eagle insignia and TXL letter number and version date.
7. Each year, we will update each TXL form with annual revisions if necessary.

The current TXL forms have a revision date of (02-2012). The TXL forms showing a revision date of (02-2012) are valid and applicable. Any TXL forms with a revision date prior to (02-2012) are obsolete.

Headquarters and field office personnel may photocopy TXL letters should their supply run low (be sure to photocopy the front and back sides of the TXL letters). In addition, the TXL letters are on RRAILS and the RRB website ([www.rrb.gov](http://www.rrb.gov)) so headquarters and field office personnel may print out extra copies of the appropriate TXL letters. If you print the TXL letters from the RRB website, be sure to print the PDF versions.

## **320 Duplicate Tax Statements**

Duplicate tax statements are exact copies of previously released (original or corrected) tax statements for the same tax year. Information shown on the duplicate tax statement should match the original or corrected tax information. The box labeled, DUPLICATE, in the top left hand corner of the paper tax statement form will be checked with an "X" to indicate a duplicate tax statement or a duplicate of a corrected tax statement (corrected box will also be checked). The tax year the duplicate tax statement represents will be printed in the center of the duplicate tax statement next to the label, TAX YEAR.

The mailing address shown on the duplicate tax statement may be different from the mailing address shown on the original or corrected tax statement, as authorized field office and headquarters users have the ability to modify the address on the duplicate tax statement if the address has changed since the original statement was issued or if requested by the beneficiary. Duplicate tax statement information is not sent to the IRS since the information was reported to the IRS on either the original or corrected IRS transmission file.

Duplicate tax statements may be generated via the Automated Duplicate Tax Statement System or RRAILS.

### **320.05 Automated Duplicate Tax Statements**

The automated duplicate statement request system is used to enter a request for release of a duplicate copy of the any tax statement for tax years 1992 through the most current tax year. Requests for automated duplicate tax statements can be made by authorized field office and headquarters users by pressing the PF 9 DUP key on the Statement general (PF 15) tax screen.

NOTE: Annuitants can also request duplicate tax statements via the RRB website ([www.rrb.gov](http://www.rrb.gov)). These online requests are sent through the automated duplicate tax statement process.

NOTE: Tax statements for tax years prior to 1991 can no longer be requested through the automated duplicate statement request system.

Automated duplicate tax statement requests are stored in a transaction database for batch processing. The Duplicate Statement Request screen is linked to the Tax Accounting System (TAS) system and, specifically, to the Statement general tax screen (STMT or PF 15). Therefore, you must have access to TAS in order to access the duplicate (DUP) screen. For detailed instructions, refer to TOM 3105.55.

Automated duplicate tax statements are printed and mailed from RRB headquarters in Chicago. The mailroom will enclose the appropriate taxation general information letter with the duplicate tax statement. The duplicate tax statement program is run each work day. This means that duplicate tax statements are printed each work day. Allow 5 to 7 work days for mail delivery from the date of the request. Duplicate tax statements addressed to foreign countries may take longer to arrive at their destination.



## 320.10 RRAILS Produced Duplicate Tax Statements

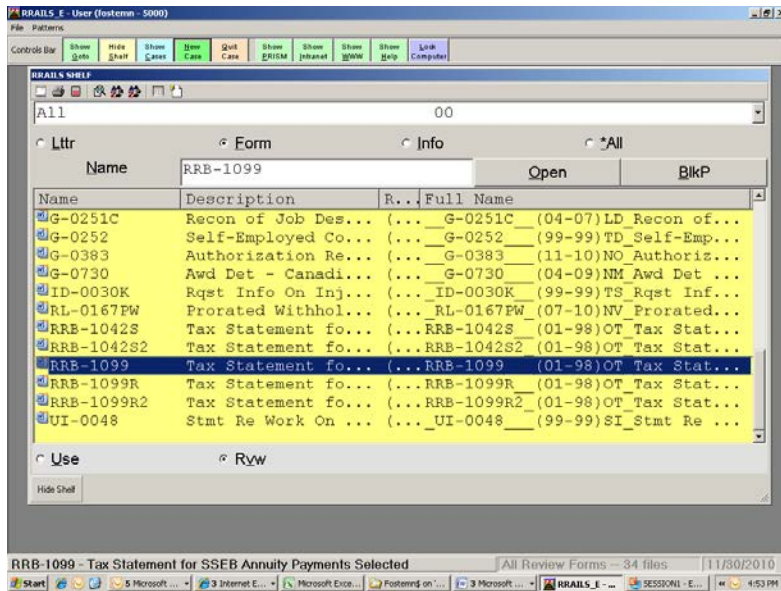
RRAILS can be used to prepare Duplicate Tax Statement Forms; RRB-1099 Tax Statement for SSEB Annuity Payments, RRB-1099R Tax Statement for Annuities or Pensions, RRB-1042S Tax Statement for Non-Resident Aliens, and RRB-1099R (12-92) Tax Statement for Annuities or Pension for tax years prior to 1992. The PC generated duplicate tax statement can be printed from your office printer.

NOTE: Duplicate statements created through RRAILS are not updated to the TAS database and are not reflected on the TAX STATEMENT SUMMARY screen. Therefore field offices should document in the contact log the preparation and issuance of a duplicate tax statement.

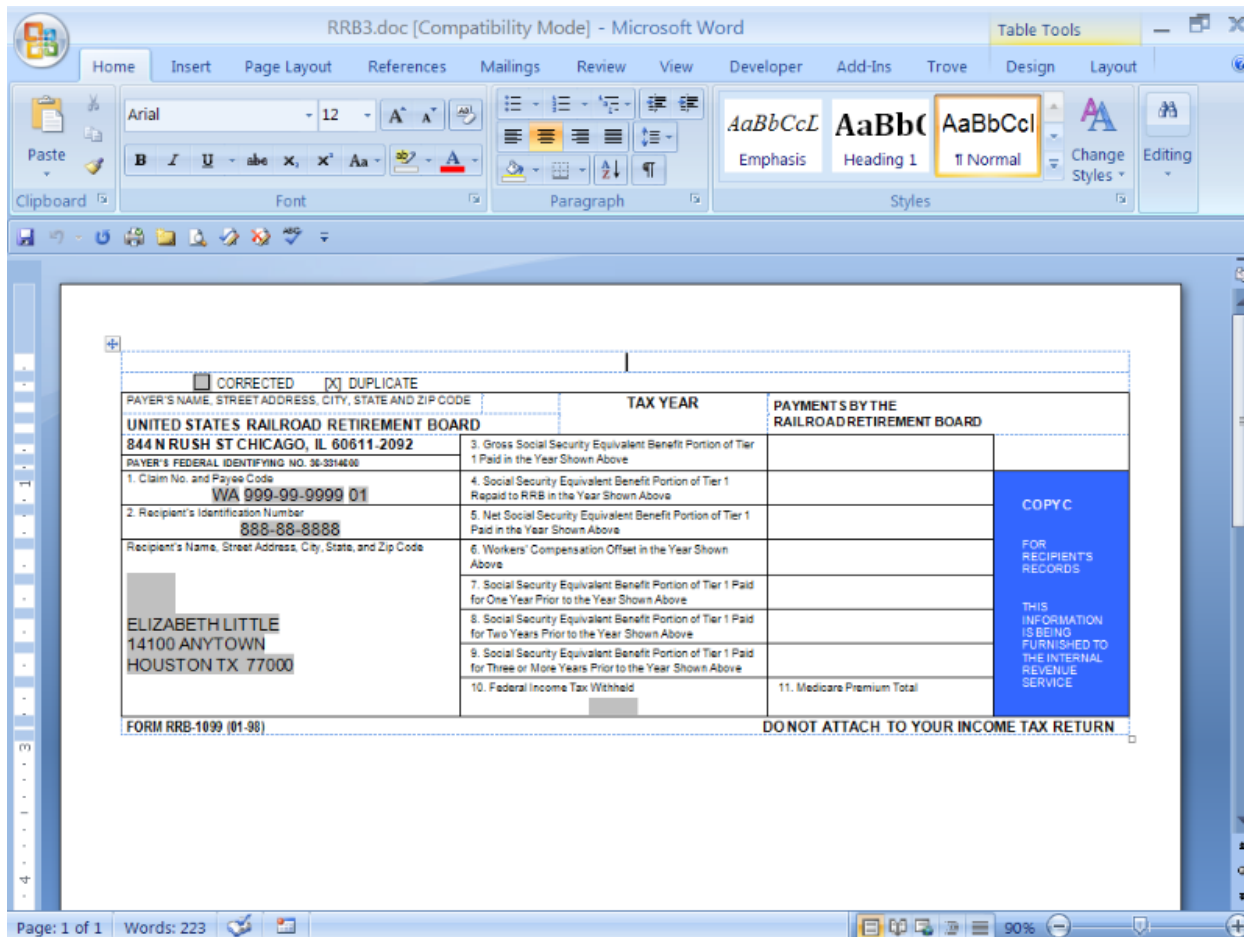
Access RRAILS. Detailed user procedure can be found in FOM-1-1596.5.



Select New Case to open the RRAILS New Contact client window. This will allow you to lookup and download the beneficiary name, claim number, and address information. Once the beneficiary's information has been acquired, select the appropriate duplicate tax statement form from the RRAILS Shelf; RRB-1099, RRB-1099R, RRB 1099R (12-92), RRB-1042S, RRB-1099R2 (Combined 1099/1099R Form), and RRB-1042S2 (Combined 1042S/1099R Form).



The appropriate form pop-up window will appear in Word. The annuitant's name, address, claim number, payee code and recipient's identification number will be prefilled.



Press Ctrl/Shift/F2 and follow the screen prompt instructions; you may receive a pop-up box that asks “Do you need to see more than 14 statements?” select ‘yes’ to continue. Select the appropriate tax statement year. The duplicate tax statement form will be prefilled with the applicable tax statement information. The address may be modified, if necessary. Before mailing, enclose the appropriate taxation general information letter, i.e. TXL-1099, TXL-1042S, TXL-1099-R and TXL-1099-R 1991 with the duplicate tax statement(s). The letters can be found on RRAILS or the RRB website ([www.rrb.gov](http://www.rrb.gov)). In some situations, a special customized explanation letter may be released with the duplicate tax statement and corresponding TXL letters. See TOM 315.15 for detailed information about the tax letters.

RRB2.doc [Compatibility Mode] - Microsoft Word

Table Tools

Home Insert Page Layout References Mailings Review View Developer Add-Ins Trove Design Layout

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Editing

CORRECTED [X] DUPLICATE		TAX YEAR	PAYMENTS BY THE
FAYER'S NAME, STREET ADDRESS, CITY, STATE AND ZIP CODE		2010	RAILROAD RETIREMENT BOARD
UNITED STATES RAILROAD RETIREMENT BOARD			
844 N RUSH ST CHICAGO, IL 60611-2092		3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in the Year Shown Above	16,728.00
PAYER'S FEDERAL IDENTIFYING NO. 30-3214600		4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in the Year Shown Above	0.00
1. Claim No. and Payee Code WA 999-99-9999 01		5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in the Year Shown Above	16,728.00
2. Recipient's Identification Number 888-88-8888		6. Workers' Compensation Offset in the Year Shown Above	0.00
Recipient's Name, Street Address, City, State, and Zip Code		7. Social Security Equivalent Benefit Portion of Tier 1 Paid for One Year Prior to the Year Shown Above	0.00
ELIZABETH LITTLE		8. Social Security Equivalent Benefit Portion of Tier 1 Paid for Two Years Prior to the Year Shown Above	0.00
14100 ANYTOWN		9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Three or More Years Prior to the Year Shown Above	0.00
HOUSTON TX 77000		10. Federal Income Tax Withheld	
FORM RRB-1099 (01-98)		11. Medicare Premium Total	1156.80

DO NOT ATTACH TO YOUR INCOME TAX RETURN

COPYC  
FOR RECIPIENT'S RECORDS  
THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE

start

00 Bureau Work Documents Desktop 1:56 PM

### 320.15 When to Release Duplicate Tax Statements

Since all original automated tax statement mailer packets for the latest tax year are not required to be received until January 31, it should not be necessary to request duplicate tax statements prior to that date. Allow adequate mailing time from the date of the release by the contractor. Requests for duplicate tax statements for the latest tax year should be made beginning in February. Requests for duplicate tax statements for any tax year other than the latest tax year can be made at any time.

## 325 Corrected Tax Statements

### 325.05 Overview

The concept of the corrected tax statement is to provide the latest correct tax information to the annuitant and the IRS. Tax information includes the RRB claim number and payee code, taxpayer identification number (social security number, individual taxpayer identifying number, employer identification number), mailing address, payment amounts, repayment amounts, tax withholding amounts, workers' compensation offset amount, Medicare premium total, employee contributions amount, NRA tax withholding rate percentages (0%, 15% or 30%) for those taxed as nonresident aliens of the United States, and country of residence for tax purposes for those taxed as nonresident aliens of the United States.

Original tax statements are released in January of each year. Corrected tax statements can only be released after the corresponding original tax statements have been released. Corrected tax statements are released throughout the year as discrepancies or errors are identified by annuitants, tax preparers, Field Service, Tax Clerical Imaging Section-Tax Section (TCIS-TS), and/or Policy and Systems – Payment Analysis and Systems (PAS). In most situations, the annuitant may question the validity of the information shown on the original tax statement that they received and contact their nearest field office for review of that tax statement. If the field office believes that an error is made on the original tax statement, the field office will contact TCIS-TS (by phone or email) and request a corrected tax statement. Field service does not issue corrected tax statements. TCIS-TS will review the original tax statement to determine if there is an error and if the error warrants the release of a corrected tax statement. In some situations, TCIS-TS may forward the inquiry to the tax analysts in PAS for review, investigation and/or determination of a corrected tax statement. In addition, PAS may also identify errors and/or determine if a particular category of cases require corrected tax statements. Based on volume, PAS may need to determine if TCIS-TS will manually produce corrected tax statements or if the corrected tax statements can be produced mechanically. We issue about 645 manually produced corrected tax statements per year.

Corrected tax statements can be released for any tax year. However, we try to only issue corrected tax statements for the latest tax year plus three prior tax years.

The box labeled, CORRECTED, in the top left hand corner of the paper tax statement form will be checked with an "X" to indicate a corrected tax statement or a duplicate of a corrected tax statement (duplicate box will also be checked). The tax year the corrected tax statement represents will be printed in the center of the corrected tax statement next

to the label, TAX YEAR. In addition, the date the corrected tax statement was produced is shown in the top right hand corner of the corrected tax statement. This date helps to identify the latest dated tax statement.

Corrected tax statement information is updated to the tax database and the Statement general tax screen (STMT, PF 15). The corrected tax statement can be viewed and is indicated as a "corrected" on the tax screen.

A TL-265 letter (explains the corrected tax statement) or a special customized explanation letter will be released with a corrected tax statement. In addition, the appropriate TXL letters (TXL-1099, TXL-1042S, TXL-1099-R, TXL-1099-R 1991) which explains the box items found on the corrected tax statement will be released with a corrected tax statement.

–The Tax Clerical Imaging Section-Tax Section (TCIS-TS) is the section responsible for issuing corrected tax statements. Field offices do not produce or issue corrected tax statements. Corrected tax statements are manually produced on the personal computer (PC generated) and are only produced after the corresponding original tax statement was issued.

The RRB sends all tax information reported on corrected tax statements to the IRS (usually in August each year). Original and corrected tax statement information is sent to the IRS using cartridges, disks or the IRS secure website called, Filing Information Returns Electronically (FIRE) system. Therefore, recipients of corrected tax statements must use the latest dated corrected tax statements (and any original tax statements that the RRB has not corrected) when filing and/or amending their income tax return(s) for the tax year indicated on the corrected tax statement(s).

Refer to the TAX Statement Summary General Tax screen (PF 14) and/or the Statement General Tax screen (PF 15) in order to determine if a corrected tax statement is required. Be sure that an original annual automated tax statement was issued. Refer to TOM 325.10.05, Requesting Corrected Tax Statements.

Special attention should be given to the following:

- If an "original" Form RRB-1099-R statement was released, and a "corrected" tax statement is required, effective January 2, 1993 and later, the tax statement will be done on the mainframe generated Form RRB-1099-R stand alone or, effective January 1997 and later, the PC generated Form RRB-1099-R stand alone. Insert into window envelopes and release the entire package which includes the tax statement(s), TXL-1099-R letter, and the letter (TL-265 or customized letter)

explaining why the corrected Form RRB-1099-R is different from the original Form RRB-1099-R.

- If there is no SSEB amount or repaid amount, a Form RRB-1099 (for citizens or legal residents of the United States) or Form 1042S (for NRAs) was not released. This will include situations where the beneficiary was not entitled to tier 1 or the O/M (special guaranty) amount. Similarly affected are those beneficiaries who had a tier 1, but no SSEB (i.e., 60/30 annuitants under age 62 and occupational disability annuitants without a disability freeze).
- Prior to tax year 1992, no Form RRB-1099-R was released in Three-Year Rule cases, if the contributory amount (tier 2 plus NSSEB amount) was not yet taxable because the employee's contributions had not been recovered, and no vested dual benefit or supplemental annuity was paid in the tax year.

For tax year 1986, General Rule annuitants were sent Form RRB-1099-R tax statements erroneously computed under the Three-Year Rule. If these General Rule annuitants requested a corrected Form RRB-1099-R for tax year 1986, we sent out a Form RRB-1099-R tax statement (not the Form RRB-1099-R (12-92)) computed under the Three-Year Rule.

#### MAILING ADDRESS ON CORRECTED TAX STATEMENTS:

The mailing address shown on a corrected tax statement may not be the same as the mailing address shown on the previously issued tax statement. This is because TCIS-TS examiners have the ability to change the mailing address on a corrected tax statement with the latest and most current available mailing address. Therefore, the mailing address shown on corrected tax statements is either the address that was on RRB records at the time the previously released tax statement was issued OR the latest address shown on DATAQ OR the address provided by the person requesting the corrected tax statement. As a result, the mailing address shown on the corrected tax statement should be the most current mailing address. Changing the mailing address for a corrected tax statement will not change the address shown on DATAQ. If the mailing address is different from the mailing address shown on DATAQ, a change of address (COA) should be made using standard COA procedures. Recipients of corrected tax statements should review the mailing address shown on the tax statement. If the mailing address is incorrect or incomplete, the recipient should immediately contact and provide the RRB with the correct and complete mailing address.

#### INCORRECT TAXPAYER IDENTIFYING NUMBER (TIN):

Annuitants and field offices should request a corrected tax statement when the error on the tax statement is an incorrect taxpayer identifying number (TIN). This error is rare and as a result, we have a very small volume of these cases. A TIN, according to Internal Revenue Service (IRS) regulations, is a nine-digit number that is either a United States social security number (SSN), a United States individual taxpayer identification number (ITIN) or an employer identification number (EIN). A TIN is assigned to individuals by the Social Security Administration (SSA) or the IRS. Generally, a SSN is assigned to a U.S. citizen, an ITIN is assigned to a nonresident alien, and an EIN is assigned to an Estate.

A TIN (SSN or ITIN or EIN) is the tax statement recipient's identification number shown in Box 2 on all tax statements. The TIN shown on the tax statement will be reported to the IRS. As a result, IRS (as well as the RRB) will associate all payments, repayments and tax withholding amounts to the TIN shown on the tax statement. Therefore, if the tax statement shows an incorrect TIN, contact TCIS-TS by phone, memorandum, letter correspondence or e-mail and advise TCIS-TS of the correct TIN (SSN, ITIN or EIN).

TCIS-TS will issue a "corrected" set of tax statements with the incorrect TIN (SSN, ITIN, EIN) shown in Box 2 of the tax statements. This corrected set will report zero payment, repayment, and tax withholding amounts for the incorrect TIN. As a result, the amounts reported to IRS (as well as RRB records) under the incorrect TIN will be canceled. The zero corrected tax statements (and any other documentation such as worksheets, memos, notes or letters) may be imaged for folder documentation. The corrected zero tax statements may be updated to the Statement general tax screen (PF 15). In some situations, the tax analyst in Policy & Systems may contact IRS to inform IRS of the tax statement showing the incorrect TIN.

We do not want to release a tax statement showing a TIN to an individual who is not assigned that TIN. This insures privacy of an individual's TIN and prevents identity theft. Therefore, the zero corrected tax statement may be sent to the individual (if the name and address is known) who is assigned the TIN that was incorrectly reported on a previously issued RRB tax statement. You may have to request a SSA MBR using the TIN to obtain the individual's name and mailing address. (This is especially true if the individual is a non railroad beneficiary and therefore not in any RRB database.) A customized explanation letter will be sent to the individual explaining the situation. The letter may be sent alone or with the zero corrected tax statement. Information from the zero corrected tax statement may be sent to the IRS or the tax analyst in P&S may contact the IRS so that the IRS cancels the original tax statement under the same TIN.

TCIS-TS will then issue an "original" set of tax statements with the correct TIN (SSN, ITIN, EIN) shown in Box 2 of the tax statements. This original set will report the



payment, repayment and tax withholding amounts for the correct TIN. As a result, the amounts will be associated with the correct TIN and will be reported to IRS. In addition, RRB records will be correct. The original tax statements showing the correct TIN will be sent to the correct individual. A customized explanation letter or TL-266 (standard letter that accompanies original tax statements) will be sent to the individual with the original tax statements.

NOTE: If you are unsure as to how to handle corrected tax statements with an incorrect TIN, please refer the case to the tax analysts in Policy and Systems.

In summary, TCIS-TS will correct the TIN on the tax statement(s) by preparing two sets of tax statements (corrected and original) in the following manner:

- A corrected copy set containing all identifying data as originally issued will be prepared. All box items involving money amounts will be filled with an -0-. This set will contain the erroneous TIN in Box 2 of the tax statement(s). This zero corrected tax statement with the incorrect TIN may be sent to the IRS.
- Customized explanation letters may be sent to the affected individuals.
- An original set containing all correct identifying data will be prepared. All box items will contain the correct values. The correct TIN will be in Box 2 of the tax statement(s). This original tax statement with the correct TIN will be sent to the individual and IRS.
- If tax statements are sent to individuals, the appropriate TXL letters that explains the box items on the tax statement may be sent to accompany the tax statements.
- Make any necessary corrections for the TIN on-line.
- Send to Imaging all necessary documentation concerning the case (tax statements, tax statement worksheets, letters, memos, e-mails, notes, etc.) for future reference.

Any corrected Form RRB-W-2P tax statements for years prior to tax year 1991 will be printed on Form RRB-1099-R (01-98). There will be an extremely small volume for this category of corrected tax statements.

#### INCREASING OR DECREASING TAX WITHHOLDING AMOUNTS ON CORRECTED TAX STATEMENTS:

A corrected tax statement may show an increase in tax withholding ONLY IF the tax withholding amount shown on the original or previously issued corrected tax statement

DOES NOT represent all of the taxes actually withheld from one or more payments and deposited with the U.S. Treasury in the tax year in question. There is no need to send case referrals/inquiries involving an increase in tax withholding to Policy & Systems – Payment Analysis and Systems (P&S-PAS).

A corrected tax statement may show a decrease in tax withholding ONLY IF P&S-PAS has approved of the decreased tax withholding amount. Therefore, TCIS tax examiners, field office staff or other interested parties should refer all case referrals/inquiries involving a potential decrease in tax withholding to PAS. PAS (tax analysts) will approve the decrease in tax withholding only if the tax withholding amount shown on the original or previously issued corrected tax statement DOES NOT represent taxes actually withheld from one or more payments and deposited with the U.S. Treasury in the tax year in question and if timing restrictions imposed by the IRS are met.

If we included tax withholding on a tax statement that has been issued to the annuitant and the taxes were actually withheld from one or more payments and deposited with the U.S. Treasury, any corrected tax statement issued MUST contain that tax withholding amount. Refer to TOM 20.35, RRA Taxation Guidelines and Principles – Tax Withholding, principle 4.

#### MEDICARE PREMIUM CORRECTIONS:

If the Medicare premium total and any other item shown on the tax year 1997 and later tax statement(s) are in error, then a corrected tax year 1997 and later tax statement should be issued showing the corrections for both the Medicare premium total and the other item(s). A corrected tax statement can be on either the mainframe generated or personal computer (PC) generated stand alone tax statement forms.

The Medicare premium total is normally shown on Form RRB-1099 (for citizens) or Form RRB-1042S (for NRAs). Therefore, if a beneficiary receives a combined Form RRB-1099 and Form RRB-1099-R (for citizens) OR Form RRB-1042S and Form RRB-1099-R (for NRAs) for a tax year, the Medicare premium total box item on Form RRB-1099-R will be blank. However, if a "corrected" Form RRB-1099 or Form RRB-1042S is issued showing "zero" payment, repayment, and/or tax withholding amounts, then the Medicare premium total should be transferred to the Form RRB-1099-R since that is the only tax statement reporting tax information (i.e., Forms RRB-1099 or RRB-1042S are canceled). Therefore, a "corrected" Form RRB-1099-R will be issued showing the amounts that were on the canceled Forms RRB-1099 or RRB-1042S (i.e., correct payment, repayment, tax withholding, and/or Medicare premium total amounts). Basically, if the Medicare premium total was reported on a tax statement and that tax

statement is canceled (i.e., corrected tax statement is released reporting zero amounts), then the Medicare premium total should be transferred to the remaining tax statement. The remaining tax statement will be a corrected tax statement since it must include the payments from the canceled tax statement.

However, if only the total Medicare premium total is in error, then we will not issue a corrected tax year 1997 and later RRA tax statement. A corrected tax year 1997 and later RRA tax statement is not necessary since the Medicare premium total is only for informational purposes only. In addition, we are not legally obligated by IRS to report the Medicare premium total on our tax statements. If the Medicare premium total amount on tax year 1997 and later RRA tax statements is the only item in error and the correct Medicare premium amount has been verified by TCIS-TS and/or Medicare Programs Section (MPS), then TCIS-TS and/or MPS will issue a "letter" stating the correct Medicare premium total amount.

Furthermore, we will not issue corrected tax statements for tax years prior to 1997 if the Medicare premium total is in error OR if the beneficiary requests a corrected tax statement that shows their Medicare premium total for tax years prior to tax year 1997 OR if Medicare premiums deducted from social security benefits is not shown on any RRB or SSA tax statement. **See TOM 300.15, Medicare Premium Total Shown on Tax Year 1997 and Later Tax Statements.**

NOTE: TCIS-TS must manually compute and release original tax statements between January and the beginning of April of each tax season. Inform beneficiaries who request an original or corrected tax statement that every attempt will be made to furnish the tax statement to them prior to the tax filing deadline (April 15). **Issuing original tax statements prior to the tax filing deadline will be given highest priority.** Requests received after April 1 may not be processed in time.

### **325.10 Manual Corrected Tax Statements**

Manual corrected tax statements will be done by TCIS-TS. Corrected tax statements will be done in the date order they are received. Each tax year before April 15, we can correct any tax statements for the past three tax years and the open tax year (i.e., from January through April 15, 2007, we could correct 2003, 2004, 2005, 2006 tax statements). However, after April 15, we can only correct the most recent three tax years (i.e., 2004, 2005, 2006). However, if an annuitant requests a corrected tax statement for a year prior to the 3-year period because IRS has requested it, then TCIS-TS will prepare a corrected tax statement for that year. See TOM 325.05, Overview.

Generally, the IRS only allows taxpayers to amend their income tax returns for the past three tax years. However, if an annuitant requests a corrected tax statement for a year prior to the 3-year period because IRS has requested it, then TCIS-TS will prepare a corrected tax statement for that year.

The RRB sends all tax information reported on corrected tax statements to the IRS (usually in August each year). Therefore, recipients of corrected tax statements must use the corrected tax statements when filing and/or amending their income tax return(s) for the tax year indicated on the corrected tax statement(s).

A TL-265 or a TL-266 letter will accompany the corrected tax statement(s) sent to the beneficiary. Both letters provides the beneficiary with general information concerning their tax statements. The TL-265 states that an error was found in the tax statements and a corrected set of tax statements is enclosed. The TL-266 states that the tax statements enclosed are an original set of tax statements

There are situations in which a special customized letter is sent with the corrected tax statement(s) rather than the standard TL-265 or TL-266 letters. This is because special explanations and/or specific instructions are needed and are included in the special customized letter.

If the Medicare premium total and any other item shown on the tax year 1997 and later tax statement(s) are in error, then a corrected tax year 1997 and later tax statement should be issued showing the corrections for both the Medicare premium total and the other item(s). A corrected tax statement can be on either the mainframe generated or personal computer (PC) generated stand alone tax statement forms.

The Medicare premium total is normally shown on Form RRB-1099 (for citizens) or Form RRB-1042S (for NRAs). Therefore, if a beneficiary receives a combined Form RRB-1099 and Form RRB-1099-R (for citizens) OR Form RRB-1042S and Form RRB-1099-R (for NRAs) for a tax year, the Medicare premium total box item on Form RRB-1099-R will be blank. However, if a "corrected Form RRB-1099 or Form RRB-1042S is issued showing "zero" payment, repayment, and/or tax withholding amounts, then the Medicare premium total should be transferred to the Form RRB-1099-R since that is the only tax statement reporting tax information (i.e., Forms RRB-1099 or RRB-1042S are canceled). Therefore, a "corrected" Form RRB-1099-R will be issued showing the amounts that were on the canceled Forms RRB-1099 or RRB-1042S (i.e., correct payment, repayment, tax withholding, and/or Medicare premium total amounts). Basically, if the Medicare premium total was reported on a tax statement and that tax statement is canceled (i.e., corrected tax statement is released reporting zero amounts), then the Medicare premium total should be transferred to the remaining tax statement.

The remaining tax statement will be a corrected tax statement since it must include the payments from the canceled tax statement.

However, if only the total Medicare premium total is in error, then we will not issue a corrected tax year 1997 and later tax statement. A corrected tax year 1997 and later tax statement is not necessary since the Medicare premium total is only for informational purposes only. In addition, the RRB is not legally obligated by IRS to report the Medicare premium total on RRB tax statements. If the Medicare premium total amount on tax year 1997 and later tax statements is the only item in error and the correct Medicare premium amount has been verified by TCIS-TS and/or Medicare Programs Section (MPS), then TCIS-TS and/or MPS will issue a "letter" stating the correct Medicare premium total amount.

Furthermore, we will not issue corrected tax statements for tax years prior to 1997 if the Medicare premium total is in error OR if the beneficiary requests a corrected tax statement that shows their Medicare premium total for tax years prior to tax year 1997. See TOM 300.15, Medicare Premium Total Shown on Tax Year 1997 and Later Tax Statements.

### **325.10.05 Requesting Corrected Tax Statements**

Requests for corrected annual tax statements should be sent to TCIS-TS via OUTLOOK e-mail (TCIS-TS Group Mailbox) using the e-G-115. The request should include: the annuitant's name, the RRB claim number, the folder location (charge), the tax year(s) needing correction(s), the type of tax statements needing correction(s), a brief explanation of the problem, sender's location (field office), the sender's name, phone and/or fax number (include area code), and e-mail address.

During January of each year, the original tax statements for the latest tax year are issued. The due date to release the original tax statements to recipients is January 31<sup>st</sup>. It takes about 2 to 3 work days (depending on weather conditions) from the date the original tax statements are released to arrive at their destination. For foreign mailing addresses, it may take longer for original tax statements to arrive. We must allow a reasonable amount of time for the original mailers to arrive before a corrected or duplicate tax statement for that same tax year is requested. TCIS-TS will release corrected tax statements for the latest tax year two days after the original tax statements for the latest tax year are mailed. This will allow time for beneficiaries to receive their original tax statements before the corrected tax statements arrive. Release of corrected tax statements to areas where the original tax statements have not yet been mailed will be delayed until after the original tax statements are mailed.

Corrected tax statements for any year other than the latest tax year will be released at any time. After January, corrected tax statements for the latest tax year will be released at any time.

### 325.10.10 Handling Tax Inquiries

You should be able to answer most questions with a general explanation of how RRA benefits are taxed. The general TAX screens can be accessed to aid in field inquiries. Data from manually prepared original and corrected tax statements is updated to TAX screens PF14/PF15 on a regular basis. Page 2 of the statement tax record (PF15 then press PF13) also contains items directly related to statement amounts, but not shown on the tax statements. The general TAX screens will be changed for current year activity. Please note that the on-line RRB W-4P Election Process Screens (PF2) are on the Selection Menu. Also, the information concerning IRS Form W-4V, Voluntary Withholding Certificate, is shown on the Withholding Election (PF 18) general tax screen.

#### TAX STATEMENT TYPE CODES and CODE DESCRIPTIONS:

11	Original Forms RRB-1099 and RRB-1099-R
12	Original Forms RRB-1042S and RRB-1099-R
13	Original Form RRB-1099-R only
14	Original Form RRB-1099 only
15	Original Form RRB-1042S only
21	Corrected Forms RRB-1099 and RRB-1099-R
22	Corrected Forms RRB-1042S and RRB-1099-R
23	Corrected Form RRB-1099-R only
24	Corrected Form RRB-1099 only
25	Corrected Form RRB-1042S only
31	Corrected Form RRB-1099/Original Form RRB-1099-R

32	Corrected Form RRB-1042S/Original Form RRB-1099-R
41	Original Form RRB-1099/Corrected Form RRB-1099-R
42	Original Form RRB-1042S/Corrected Form RRB-1099-R
999	No tax statements necessary.

- Beneficiary tax inquiries received in Headquarters and the preparation of original and corrected manual tax statements will be handled by the Unemployment and Programs Support Division's Tax Clerical Imaging Section-Tax Section (TCIS-TS).
- Any Congressional and Board Member Office (for example, LMOs) inquiries should be sent to the Director of Unemployment and Programs Support Division.

All requests received from annuitants at Headquarters will also be sent an e-mail OR acknowledgment letter, Form TXL-82F (8-10), by TCIS-TS.

All annuitant requests for corrected or original tax statements received by field offices should be acknowledged by sending Form TXL-82F (8-10) to the annuitant.

Annuitants who received bypass notices should not be sent Form TXL-82F since they were previously informed of the delay of their tax statements in the TL-269 bypass letter or special customized explanation letter.

### **325.10.15 Form SSA-1099 And/Or Form SSA-1042S Inquiries**

If a beneficiary receives social security benefits during the tax year, the beneficiary should receive Form SSA-1099 (or Form SSA-1042S if the beneficiary is a NRA) and Notice 703 from the Social Security Administration (SSA). Form SSA-1099 and/or Form SSA-1042S inquiries should be directed to the beneficiary's local SSA field office not the RRB. However, if any Form SSA-1099 and/or Form SSA-1042S inquiries are sent to the RRB, these inquiries should be directed to the Retirement Benefits Division (RBD). SSA tax inquires should be forwarded to the RBD mailbox. Only upon beneficiary request, RBD will complete a worksheet entitled, Dual SSA/RRB Inquiry Worksheet, with the total amount of SSA benefits paid by the RRB for a specific beneficiary. Based on the beneficiary's social security number, the worksheet is sent to one of seven different SSA payment centers (each center handles a certain social security number

range). The appropriate SSA payment center issues an original and/or corrected SSA tax statement (Form SSA-1099 or Form SSA-1042S) with the information shown on the worksheet. RBD images a copy of each of the worksheets for documentation. RBD issues about 200 to 300 worksheets per year with the heaviest volume during the tax season (January through April 15).

### **325.15 Automated Corrected Tax Statements**

Corrected tax statements are produced manually by TCIS-TS. Based on volume and complexity of the correction, the tax analysts in Policy and Systems may determine if a certain category of corrected tax statements should be produced mechanically (automated). Although automated corrected statements have been released in the past, they were released as the result of a one-time-only correction program. Automated corrected tax statement processing is rare. There is currently no existing processing for preparing corrected statements automatically on a recurring basis.

#### **325.15.05 Duplicate Corrected Tax Statements**

Automated duplicate corrected statements can be released only if a manual corrected statement has been released and updated to TAX screens PF14/15. These type of tax statements are called “duplicate of a corrected” tax statement. Both boxes labeled DUPLICATE and CORRECTED will be checked on the paper tax statement. The Statement general tax screen (PF 15) will show “duplicate of corrected” tax statement.

Effective January 1993 and later, for any manually corrected Form RRB-1099-R tax statement created January 2, 1993 or later, a request for a duplicate will be done on the Form RRB-1099-R (01-98). If a corrected tax statement was created prior to January 1, 1993, then a request for a duplicate can only be done on RRAILS using the Form RRB-1099-R (12-92). Requests for duplicate corrected RRB-W-2P statements for years prior to 1991 will also be printed on the Form RRB-1099-R (12-92) on RRAILS. Duplicate corrected statements are requested the same way as duplicate statements. See TOM 320.05, Automated Duplicate Statements.

### **330 Repayments on Tax Statements**

A repayment, for RRA tax statement reporting purposes, is the return or recovery to the RRB of an amount previously paid.

The return of an amount previously paid is:

- Return of a paper check, or



- Return of an electronic funds transfer (EFT) payment.

The recovery of an amount previously paid is:

- Full reimbursement by cash, personal check, cashier's check, money order, or credit/debt card (refer to the section below entitled, Cash Refunds for Overpayments Involving Current Year Tax Withholding);
- Partial reimbursement by cash, personal check, cashier's check, money order, or credit/debit card (refer to the section below entitled, Cash Refunds for Overpayments Involving Current Year Tax Withholding);
- Installment payments over a specified period of time by cash, personal check, cashier's check, money order or credit/debit card;
- Full annuity withholding by annuity suspension for one or more months;
- Partial annuity withholding by annuity offset for one or more months;
- Recovery from an annuity accrual payment of the overpaid beneficiary or any family member (for example: employee, spouse, widow, divorced spouse, or child) of the overpaid beneficiary;
- Actuarial adjustment for the life of the annuity;
- Reclamation (check or EFT) due to annuity terminations or non-receipt;
- Receipt of an amount collected by the Office of Inspector General (OIG);
- Receipt of an amount collected by the Department of Justice (DOJ);
- Receipt of an amount collected by an official RRB designated collection agency (see RCM 6.6.230, Delinquent Debt Referrals to Private Collection Agencies), or
- Receipt of an amount withheld (offset) from an U.S. Federal income tax refund (see RCM 6.6.240, IRS Tax Refund Offset Program).

A repayment is reportable for the tax year in which the repayment transaction (return or recovery) occurs at the RRB. The phrase "at the RRB" refers to RRB headquarters, field offices, and RRB deposit accounts. Refer to the section below entitled, Two Conditions to Accept Repayments for Tax Purposes.

NOTE: A current year pension (NSSEB, tier 2, VDB, supplemental annuity) repayment is one that occurs in the same year as the payment it represents. A current year pension repayment may not be reported on an annual tax statement. This is because the current year pension payment that a current year repayment represents was never reported on a tax statement as a taxable paid amount. To compensate, we net any current year pension repayment accumulated for tax statement reporting purposes from any like current year pension payment accumulated for tax statement reporting purposes. In these situations, we report neither the current year repayment amount nor the corresponding current year payment amount.

We similarly net award accrual pension payments returned or recovered in the year of issue by allocating the accrual returns as negative payments and negative deductions. In these situations, the negative amounts offset the positive amounts, both by component and tax year, and we report neither the accrual payments nor the returns/recoveries.

Refer to RCM 6.6, Recovery of Overpayments, for more information. In addition, refer to TOM 20.20, RRA Taxation Guidelines and Principles – Recoveries – Positive Repayments and Negative Payments, for information concerning repayments. Refer to TOM 20.45, RRA Taxation Guidelines and Principles – Who Should Receive Tax Statements, for information concerning who should receive tax statements if a repayment is made.

### **Two Conditions to Accept Repayments for Tax Purposes:**

There are two conditions for a repayment to be reported on a tax statement for a tax year. Refer to the NOTE above concerning current year pension repayments. If both of the following conditions are not met, then we cannot report the repayment on the tax statements.

If you are unsure as to which tax year to attribute a repayment, please refer the case to the tax analysts in Policy and Systems.

#### **1. Repayment Payable to RRB – Any repayment must be payable to the RRB.**

The overpayment letters issued by the RRB instruct beneficiaries to make repayments by sending any check, money order or credit/debit card charge, payable to the “Railroad Retirement Board.”

Any repayment (reimbursement) made by personal check, cashier’s check, money order, or credit/debit card must be made payable to the RRB in order for the RRB to apply repayment credit. The check, money order, or credit/debit card must be made

payable to the RRB so that the RRB can negotiate (cash) or deposit the repayment amount into any RRB financial (bank) account. In the event that the check or money order was made payable to an RRB official and/or RRB department (for example, Field Office representative, Director of Unemployment and Programs Support Division, Office of Inspector General, Bureau of Fiscal Operations, Debt Recovery Division), the check or money order must be endorsed over to the RRB agency. Refer to RCM 6.6.30, Methods of Recovery. Also, refer to TOM 2315.35, Cash Refund and Credit Card Repayment.

2. Proof of Repayment Date to Determine Which Tax Year to Credit Repayment – We need the date the repayment was received at the RRB to attribute (credit) the repayment to the appropriate tax year. The phrase “at the RRB” refers to RRB headquarters, field offices, and RRB deposit accounts.

A repayment is reportable on a tax statement for the tax year in which the repayment transaction (return or recovery) occurs at the RRB. To attribute a repayment to a particular tax year, use the EARLIEST DATE of the following transactions (see NOTE 1 below).

- Date repayment was actually received at the RRB or returned to the RRB (look for the official RRB date stamp),
- Date repayment(s) were withheld from recurring annuity payments,
- Date accrual or one payment only (OPO) was established with a vouchered award action and applied to the overpayment,
- Date accrual or OPO was established without a vouchered award action (G-363 or PC equivalent) and applied to the overpayment,
- Date shown on any paper receipt given to beneficiaries by RRB field office or headquarters staff,
- Date repayment was cashed by the RRB,
- Date repayment was charged by the RRB for credit/debit card transactions,
- Date repayment was endorsed over to the RRB agency if it was erroneously made payable to an RRB office or official rather than the agency,
- Date repayment was deposited into Lockbox (refer to NOTE 2 below),

- Date repayment was deposited into Unapplied Cash Account,
- Date repayment was deposited into an overpaid account, or
- Date shown on PAR screen as the date repayment was made.

NOTE 1: Examiners and analysts may have to request claim folders, contact field offices, check the Imaging system, check PAR screens and tables, and/or request copies of checks and Lockbox information from BFO-DRD to obtain all necessary information in order to determine the earliest date.

NOTE 2: The Lockbox is a deposit account used by the RRB to receive reimbursements. The Unapplied Cash Account is an all purpose deposit account sometimes used by the RRB to temporarily hold money received prior to allocation to an overpaid account.

#### **Impact of Two Conditions on the Reporting of Repayments on Tax Statements:**

- If a repayment was received in a year and meets the above two conditions, then the repayment should be reported on the “original” tax statements for that year.
- If a repayment was received in a year and meets the above two conditions but was not reported on the original tax statements for that year, then “corrected” tax statements for that year should be issued reporting the repayment.

#### **Cash Refunds for Overpayments Involving Current Year Tax Withholding:**

- Cash refund amount is net of tax withholding (after offset for tax withholding)

When a cash refund is made in the current year for a current year overpayment and the amount of the cash refund is net of (after) tax withholding, the cash refund transaction should be posted so that the current year tax withholding amounts are negated and give current year repayments equal to the amount of the cash refund received. Repayment amounts should not exceed the gross payments and should never exceed the amount of the cash refund actually received. By negating the taxes, we can recover current year tax withholding amounts from the agency’s tax deposits. If handled correctly, the current year tax statements will contain the correct payment, repayment, and tax withholding totals.

Recovery of accrual pension paid amounts (NSSEB, tier 2, VDB, and supplemental annuity) recovered in the year of issue should be posted as negative paid amounts

rather than positive repaid amounts. Recovery of accrual SSEB paid amounts recovered in the year of issue should be posted as positive repaid amounts.

Example 1:

John Smith is paid a “gross” monthly railroad retirement benefit of \$1,000.00 in the current year. Taxes of \$125.00 are withheld from that monthly benefit. Therefore, John is paid a “net” monthly railroad retirement benefit of \$875.00. John returned to railroad service for two months in the current year. John is overpaid \$2,000.00 (\$1,000.00 x 2 months) for those two months. John made a cash refund of \$1,750.00 (\$875.00 x 2 months) in that same year. John made a repayment equal to his net payments. We should post positive current year repayments of \$1,750.00 since that is the amount actually received. We should post negative tax withholding amounts of \$250.00 (\$125.00 TWH x 2 months).

Example 2:

John Smith is paid a “gross” accrual benefit in the current year of \$2,000.00 (\$1,000 SSEB CY + \$750 NSSEB CY + 250 tier 2 Post 1983). Taxes of \$550.00 (\$300 SSEB + \$200 NSSEB + \$50 tier 2) are withheld from that accrual. Therefore, John is paid a “net” accrual of \$1,450.00 (\$2,000 accrual payment - \$550 tax withholding). John is not entitled to the accrual payment and is overpaid the full \$2,000.00. John made a cash refund of \$1,450.00 in that same year. John made a repayment equal to his net accrual payment. We will report a total recovery amount of \$1,450.00 since that is the actual amount that we received. Therefore, we should post a positive \$700 SSEB current year repayment for the recovery of the SSEB portion and we should post a negative \$550 NSSEB current year paid and a negative \$200 tier 2 post 1983 paid for the recovery of the pension portion. We should post total negative tax withholding amounts of \$550.00 (negative \$300 SSEB TWH + negative \$200 NSSEB TWH + negative \$50 tier 2 TWH) to recover all of the current year taxes withheld and deposited.

- Cash refund amount is gross of tax withholding (before offset for tax withholding)

When a cash refund is made in the current year for a current year overpayment and the amount of the cash refund is gross of (before) tax withholding, the cash refund transaction should be posted so that the current year tax withholding amounts are negated and give current year repayments equal to the amount of the cash refund received. Repayment amounts should not exceed the gross payments and should equal the amount of the cash refund actually received. By negating the taxes, we can recover current year tax withholding amounts from the agency tax

deposits. If handled correctly, current year tax statements will contain the correct payment, repayment, and tax withholding totals.

Recovery of accrual pension paid amounts (NSSEB, tier 2, VDB, and supplemental annuity) recovered in the year of issue should be posted as negative paid amounts rather than positive repaid amounts. Recovery of accrual SSEB paid amounts recovered in the year of issue should be posted as positive repaid amounts.

#### Example 1:

John Smith is paid a “gross” monthly railroad retirement benefit of \$1,000.00 in the current year. Taxes of \$125.00 are withheld from that monthly benefit. Therefore, John is paid a “net” monthly railroad retirement benefit of \$875.00. John returned to railroad service for two months in the current year. John is overpaid \$2,000.00 (\$1,000.00 x 2 months) for those two months. John made a cash refund to the RRB of \$2,000.00 (\$1,000.00 x 2 months) in that same year. John made a repayment equal to his gross payments. We should post positive current year repayments of \$2,000.00 since that is the amount actually received. We should post negative tax withholding amounts of \$250.00 (\$125.00 TWH x 2 months).

#### Example 2:

John Smith is paid a “gross” accrual benefit in the current year of \$2,000.00 (\$1,000 SSEB CY + \$750 NSSEB CY + 250 tier 2 Post 1983). Taxes of \$550.00 (\$300 SSEB + \$200 NSSEB + \$50 tier 2) are withheld from that accrual. Therefore, John is paid a “net” accrual of \$1,450.00 (\$2,000 accrual payment - \$550 tax withholding). John is not entitled to the accrual payment and is overpaid the full \$2,000.00. John made a cash refund of \$2,000.00 in that same year. John made a repayment equal to his gross accrual payment. We will report a total recovery amount of \$2,000.00 since that is the actual amount that we received. Therefore, we should post a positive \$1,000 SSEB current year repayment for the recovery of the SSEB portion and we should post a negative \$750 NSSEB current year paid and a negative \$250 tier 2 post 1983 paid for the recovery of the pension portion. We should post total negative tax withholding amounts of \$550.00 (negative \$300 SSEB TWH + negative \$200 NSSEB TWH + negative \$50 tier 2 TWH) to recover all of the current year taxes withheld and deposited.

### **330.05 Repayments Shown On Tax Statements**

It is important to remember certain points about repayment amounts as they pertain to the tax statements:

- Social Security Equivalent Benefit (SSEB) portion of tier 1 repayments are reported on Form RRB-1099 (for citizen beneficiaries) or Form RRB-1042S (for NRA beneficiaries).
- Non-Social Security Equivalent Benefit (NSSEB) portion of tier 1, tier 2, vested dual benefit (VDB) and supplemental annuity repayments are considered as pension repayments and are reported on Form RRB-1099-R for both citizen and NRA beneficiaries.
- On Forms RRB-1099 and RRB-1042S tax statements, the entire Social Security Equivalent Benefit (SSEB) portion of tier 1 amount paid in the current tax year and repaid in the current tax year is shown on the tax statements in separate items. We also show an item for the net SSEB amount for the current tax year which is the difference between the SSEB paid in the current tax year minus the SSEB repaid in the current tax year. No consideration is given to when the overpayment occurred, only that the repayment was made in the current tax year.
- Pre-SSEB and SSEB repayments are reportable on Form RRB-1099 and Form RRB-1042S tax statements regardless of whether the amounts repaid were ever reported to the IRS as taxable payments. Pre-SSEB repayments are tier 1 repayments for years before 1986, including years before 1984. Refer to TOM 20.20, RRA Taxation Guidelines and Principles – Recoveries – Positive Repayments and Negative Payments, for additional information.
- A pension (NSSEB, tier 2, VDB, and supplemental annuity) repayment is reportable on the Form RRB-1099-R tax statement only if the amount repaid was previously reported as a taxable payment on any annual tax statement.
- Whenever we exclude reporting on tax statements of any Pre-SSEB, NSSEB, tier 2, VDB, or supplemental annuity amounts issued AFTER the death of an annuitant, we do not report a repayment on tax statements for recovery of one of these payments. Refer to TOM 20.20, RRA Taxation Guidelines and Principles – Recoveries – Positive Repayments and Negative Payments, for additional information.
- Whenever we report on tax statements of any Pre-SSEB, SSEB, NSSEB, tier 2, VDB, or supplemental annuity amounts issued AFTER the death of an annuitant, we will report a repayment on tax statements for recovery of one of these payments. The repayments will be reported on tax statements for the tax year that we received the repayments at the RRB. In most cases, the repayments will

be reported on the tax statements for the tax year following the annuitant's year of death. Refer to TOM 20.20, RRA Taxation Guidelines and Principles – Recoveries – Positive Repayments and Negative Payments, for additional information.

For Form RRB-1099-R, a prior (earlier) year repayment amount which is the accumulation of the repayments for NSSEB, tier 2, VDB and supplemental annuity amounts taxable in a previous (earlier) year, or NSSEB, tier 2, VDB and supplemental annuity repayments that we have not identified or attributed as current year repayments made to the RRB in the current tax year are shown in Box 8, Repayments. For information on how to handle prior year repayment amounts, refer to IRS Publication 575, Pension and Annuity Income, and/or IRS Publication 525, Taxable and Nontaxable Income.

In order to determine what credit a beneficiary may take for a pension repayment amount, the individual needs to know the years to which the repayment applies. In most cases, if the overpayment occurred and was repaid in the current tax year, the repaid amount has already been subtracted from the total gross paid amount in Box 7, Total Gross Paid, of Form RRB-1099-R. However, in some cases, it is not known when the overpayment occurred. In these situations, a current tax year overpayment and repayments may not have been subtracted from Box 7, Total Gross Paid, but is instead included in the Box 8, Repayments, amount on Form RRB-1099-R.

Field offices are contacted by beneficiaries for assistance concerning which year(s) the repayment amounts shown in Box 8, Repayments, of Form RRB-1099-R apply, the field offices may be able to identify the years by reviewing field copies of overpayment letters.

- Field office personnel should direct any inquiries about repaid amounts on Forms RRB-1099-R that they cannot handle to TCIS-TS.
- If an annuity is in code 35, 36, 69, and 95 suspense (all code 66 in TAS and RECURR tax screens) to recover an overpayment by full withholding, tax statement(s) will be released showing the amount(s) paid and repaid for the tax year. Generally, the RECURR tax screen with code 66 will show paid amounts equal to repaid amounts in the same annuity components, and tax withholding will not be applied. Even though the person is not receiving monthly payments directly, the IRS considers the payments as income because the RRB is acting as the person's agent by receiving the annuity payments and applying those payments toward the overpayment on the person's behalf. Therefore, the annuity



is considered paid for the current tax year and the overpayment is being repaid for the current and/or prior tax years.

If you need information concerning a specific prior year repayment amount by individual annuity component (the NSSEB portion of tier 1, tier 2, VDB and supplemental annuity), then you can obtain this information from the Recurring and/or Non-Recurring Payment Breakdown general tax screens.

The repayment amounts shown under the REPAID column of the Recurring Payment Breakdown general tax screen (PF20) continues to be displayed as separate individual annuity component prior year repayment amounts. See TOM 3105.40.05

The repayment amounts shown under the REPAIDS column of the NON-Recurring Payment Breakdown general tax screen (PF22) continues to be displayed as separate individual annuity component prior year repayment amounts, also. See TOM 3105.45.05.

### **335 IRS Form 1099-C, Cancellation of Debt**

In accordance with section 6050P of the Revenue Reconciliation Act of 1993, the U.S. Railroad Retirement Board (RRB) is required to report the cancellation of a debt of \$600.00 or more for overpayments which were not taxable (nontaxable) when originally paid. In most cases, these are payments that occurred prior to 1984 or other nontaxable payments (such as lump sum death payments). These payments were not reported as taxable payments on any Railroad Retirement Act (RRA) tax statement (Form RRB-1099, Form RRB-1042S, Form RRB-1099-R). The amount of the canceled debt must be reported to the Internal Revenue Service (IRS) on IRS Form 1099-C, Cancellation of a Debt.

Therefore, effective with tax year 1994 and later, the RRB will issue and release IRS Form 1099-C, Cancellation of Debt, in these cases. The IRS Form 1099-C tax statement must be issued to beneficiaries by January 31. In addition, the RRB must report all IRS Form 1099-C tax statement information (i.e., number of IRS Forms 1099-C issued and total amount canceled) to the IRS by filing Form 1096, Annual Summary and Transmittal of U.S. Information Returns, tax return with the IRS by February 28.

Unlike our other RRA tax statement forms (Form RRB-1099, Form RRB-1042S, and Form RRB-1099-R), the RRB has not created its own version of the IRS Form 1099-C since the volume of use for this tax statement form is low. Each year, the Policy & Systems – Payment Analysis and Systems (P&S-PAS) tax analyst requests blank copies of IRS Form 1099-C tax statements from the IRS rather than create an RRB tax

statement form. Copies of blank IRS Form 1099-C tax statements can be obtained from the IRS by calling the IRS at 1-800-829-3676 or accessing the IRS website ([www.irs.gov](http://www.irs.gov)) and printing copies of the tax statement form.

As the years progress, we expect to issue and release only a few to zero IRS Forms 1099-C for each tax year.

**NOTE:** Due to the low volume of cases involving IRS Form 1099-C tax statements, the Policy & Systems – Payment Analysis and Systems (P&S-PAS) tax analysts handle all IRS Form 1099-C tax statements and explanation letters. Refer all inquiries concerning IRS Form 1099-C to P&S-PAS.

The chart below shows how many IRS Forms 1099-C we issued and released since tax year 1994.

YEAR	IRS Forms 1099C
2016	0
2015	2
2014	1
2013	0
2012	1
2011	2
2010	1
2009	1
2008	2
2007	3
2006	1
2005	2

2004	0
2003	1
2002	2
2001	0
2000	0
1999	0
1998	1
1997	3
1996	15
1995	54
1994	83

If no IRS Forms 1099-C are issued for a tax year, then there is no need to file Form 1096, Annual Summary and Transmittal of U.S. Information Returns, tax return for that tax year.

There are three copies of IRS Form 1099-C tax statement. Beneficiaries only receive Copy B of IRS Form 1099-C. Beneficiaries do not receive Copy A or Copy C of IRS Form 1099-C. Copy A is sent to the IRS and Copy C is for the creditor (RRB).

Copies of the beneficiaries' IRS Forms 1099-C and any accompanying explanation letters will be sent to Imaging for documentation and future reference. Copies may be filed down in the beneficiary's claim folder. In addition, a **Reading File book** is kept in P&S-PAS that contains copies of the beneficiaries' IRS Form 1099-C tax statements (Copies A, B, and C) and letters.

### **335.05 General**

For tax years 1994 through 1998, the Tax Clerical Imaging Section-Tax Section (TCIS-TS) handled the record keeping and issuance of IRS Form 1099-C tax statement while

Policy and Systems – Payment Analysis and Systems (PAS) issued the Form 1096 income tax return (reports IRS Form 1099-C tax statement information).

Effective with tax year 1999 and later, PAS began handling the record keeping and issuance of both IRS Form 1099-C tax statements and Form 1096 income tax return due to the low volume of IRS Form 1099-C tax statements.

Due to the low volume, we anticipate that PAS not TCIS-TS will continue to handle the IRS Form 1099-C tax statement and tax return process. However, should this situation change, the instructions that follow can be used by the work group or individuals assigned to handle the issuance of the IRS Form 1099-C tax statements. PAS will continue to issue the tax return.

In most cases, the claims adjudication units calculate the amount of the overpayment and notify the beneficiary of the amount that is owed to the RRB by issuing an overpayment letter. In addition, a PAR record for the overpayment amount is established. Recipients of the overpayment letters either reimburse the RRB by full repayment or partial repayment (installments) OR do not reimburse the RRB. For those who repay, no debt is waived or canceled. For those who do not repay, then the debt is either left open or waived/canceled. If the debt is left open or the debt is waived/canceled and under \$600.00, no IRS Form 1099-C is issued. If the debt is waived/canceled AND is \$600.00 or more AND was nontaxable when originally paid AND was not reported as a taxable payment on any RRA tax statement, then an IRS Form 1099-C tax statement is due the debtor.

The responsibility of the Bureau of Fiscal Operations-Debt Recovery Division (BFO/DRD) and the Bureau of Hearings and Appeals (BHA) is to make the determination as to whether or not the debt that is owed to the RRB should be canceled (waived). If BFO/DRD and/or BHA determines that the debt should be canceled, then BFO/DRD and/or BHA will close out the debt on PAR and issue the debtor a **waiver confirmation letter**. The letter confirms that the debt has been canceled (waived) and no further recovery action will occur even if money becomes available.

The responsibility of P&S-PAS is to issue and report the waivers to the debtors (on IRS Form 1099-C tax statements) and the IRS (on Form 1096 tax return). P&S-PAS does not make any waiver/cancellation determination or issue waiver confirmation letters.

Prior to tax year 1998, if it was determined that the debt should be waived, then BFO/DRD or BHA closed the debt on PAR and sent a waiver confirmation letter to the debtor stating that the debt has been waived/canceled and no further recovery action would occur. BFO/DRD or BHA then completed a waiver case worksheet with the

following beneficiary information: name, address, social security number, RRB claim number, amount of the debt to be waived, and the date when the debt was waived. Upon completion of the waiver case worksheet, BFO/DRD or BHA sent the waiver case worksheet to TCIS-TS or the PAS tax analysts. However, if TCIS-TS (or PAS tax analysts) received a waiver case worksheet which did not contain the required beneficiary information, then TCIS-TS (or PAS tax analysts) returned the waiver case worksheet to BFO/DRD or BHA for completion.

Effective with tax year 1999 and later, PAS began handling the issuance of the IRS Form 1099-C tax statements and Form 1096 tax return process. The cases that had debts waived/cancelled are shown on PAR. PAR shows the amount of the debt waived/canceled, type of debt (overpayment), and the date the debt was waived/canceled. Since all necessary information is shown in PAR, PAS no longer asked for the waiver case worksheet from BFO/DRD or BHA. Instead, PAS asked BFO to run a query against the PAR database to identify all nontaxable debts waived for a tax year, i.e....Residual Lump Sum (07A), Lump Sum Death Payment (08A), Separation Allowance Lump Sum Amount (09A) and Tax Refund (12A). The responsibility of the PAS tax analysts is to complete the IRS Form 1099-C and accompanying explanation letter.

The explanation letter provides the following information: 1) beneficiary's name and address; 2) RRB claim number; 3) the reason why beneficiaries received a IRS Form 1099-C; 4) the amount of the debt to be canceled (waived) and the date when the debt was cancelled (waived); 5) interest, penalties, and/or administrative costs which are included in the amount of the debt to be canceled; and 5) general information concerning IRS Form 1099-C.

Refer to TOM 335.25, Examiner Instructions on How to Complete the Accompanying Explanation Letter.

In addition, PAS tax analysts release duplicates of Copy B of IRS Form 1099-C and copies of the explanation letters only upon beneficiary request. See TOM 335.20. Since 1994, we have not had any requests for duplicate or corrected IRS Form 1099-C tax statements.

PAS tax analysts are responsible for releasing a completed IRS Form 1099-C to the beneficiary by January 31 each year per IRS regulations. PAS tax analysts will release all IRS Forms 1099-C for the tax year on a scheduled mass mailing date sometime in January each year. Field offices will be given advance notice of the mass mailing date by PAS. In addition, PAS tax analysts also release an explanation letter to the beneficiary along with the IRS Form 1099-C. The PAS tax analysts may also include a

copy of the waiver confirmation letter as additional documentation. PAS tax analysts must also report all Form 1099-C information to the IRS by filing Form 1096, Annual Summary and Transmittal of U.S. Information Returns, tax return by the due date of February 28 each year per IRS regulations. If no IRS Forms 1099-C is issued for a tax year, then there is no need to file Form 1096, Annual Summary and Transmittal of U.S. Information Returns, tax return for that tax year.

For any due date established by IRS, the "file" or "furnish" requirement is met if the form (i.e., tax statement or tax return) is properly addressed and mailed First Class, or sent by an IRS designated delivery service on or before the due date. If the date falls on Saturday, Sunday, or a legal holiday, then the due date is the next business day.

### **335.10 Copy A, Copy B And Copy C OF IRS Form 1099-C**

There are three copies to an IRS Form 1099-C. However, the beneficiary and field office personnel will only see Copy B of the IRS Form 1099-C:

Copy A:

This original pink and white colored copy is sent to the IRS by PAS. This is not a carbon copy.

Copy B:

This is a carbon copy which is sent to the beneficiary (debtor) and informs the beneficiary to retain this copy for his/her tax records. A photocopy of this copy is sent to Imaging. In addition, a **Reading File book** is kept in PAS which contains photocopies of Copy B and the explanation letter and will serve as a duplicate for any duplicate request. General instructions and explanations of box items are located on the back of this copy.

Copy C:

This is a carbon copy which stays at the RRB (creditor). P&S-PAS will retain this copy in the **Reading File book** kept in PAS.

### **335.15 Explanation Of Items And Examiner Entries Made On IRS**

FORM 1099-C

The following are the explanations for the box items on IRS Form 1099-C.

**VOID box:**

This box is located at the top of Copy A and Copy C of IRS Form 1099-C. A check in this box indicates that the IRS Form 1099-C contains an error and is invalid. Therefore, IRS will ignore this IRS Form 1099-C. White-out cannot be used to correct an error. An original IRS Form 1099-C will not have this box checked.

**CORRECTED box:**

This box is located at the top of all three copies of IRS Form 1099-C. This box will be checked only if this is a corrected IRS Form 1099-C. An original IRS Form 1099-C will not have this box checked.

**Box 1 Date Canceled**

Date the RRB canceled (waived) the debt. PAS tax analyst(s) will enter the date the debt was waived.

**Box 2 Amount of Debt Canceled**

Debt amount that the RRB canceled (waived). PAS tax analyst(s) will enter the amount of debt canceled (waived). This debt amount includes any interest, penalties and/or administrative costs.

**Box 3 Interest Included in Box 2**

This is the amount of interest which is already included in the amount of debt reported in Box 2, Amount of Debt Canceled. Leave this item blank.

**Box 4 BLANK**

Prior to tax year 1998 IRS Forms 1099-C, this box item was entitled, Penalties, Fines, Administrative Costs Included In Box 2. An amount shown in this box was the amount of penalties, fines or administrative costs which is already included in the amount of debt reported in Box 2, Amount of Debt Canceled.

Effective with tax year 1998 and later IRS Forms 1099-C, this box item is now blank.

**Box 5 Debt description**

PAS tax analyst(s) will enter the following sentence in this box: "U.S. Railroad Retirement Board (RRB) benefit overpayment." In addition, the PAS tax analyst(s) may

also include the type of overpayment waived (for example, "RRB benefit overpayment - Lump Sum Death Payment").

#### Box 6 Check for Bankruptcy

This box item is always blank. However, if the box is marked, the creditor (RRB) has indicated the debt was canceled in a bankruptcy proceeding.

#### Box 7 Fair Market Value of Property

This box item is always blank.

CREDITOR'S name, street address, city, state and ZIP code

The RRB is the creditor. PAS tax analyst(s) will enter the following in this box:

"U. S. Railroad Retirement Board

844 N. Rush St.

Chicago, IL 60611-2092"

CREDITOR'S Federal identification number

PAS tax analyst(s) will enter the following in this box:

"36-3314600"

DEBTOR'S identification number

The beneficiary is the debtor. PAS tax analyst(s) will enter in this box the beneficiary's own United States taxpayer identifying number (TIN) from the waiver confirmation letter. You may have to check DATAQ, tax screens or claim folder for the TIN. Generally, a TIN is a social security number for U.S. citizens, individual taxpayer identification number (ITIN) for nonresident aliens, and employer identification number (EIN) for estates or trusts.

DEBTOR'S name and address

PAS tax analyst(s) will enter in this box the beneficiary's name and address from the waiver confirmation letter. In some situations, the debtor's address may not be known or may be invalid. You may have to request a SSA MBR using the debtor's TIN (social security number) to obtain the latest known address shown for the debtor at the SSA.



Account number

PAS tax analyst(s) will enter in this box the beneficiary's RRB claim number from the waiver confirmation letter.

Refer to TOM 335.25, for Examiner Instructions on How to Complete IRS Form 1099-C and Accompanying Explanation Letter.

### **335.20 How to Handle Inquiries and Request Duplicates of IRS Form 1099-C**

Refer all beneficiary inquiries regarding the reason, amount or calculation of the overpayment amount to RBD or SBD.

NOTE: Due to the low volume of cases involving IRS Forms 1099-C tax statements, the Policy and Systems-Payment Analysis and Systems (P&S-PAS) tax analysts are currently handling all IRS Forms 1099-C tax statements and explanation letters. As a result, most inquiries or requests for duplicate or corrected tax statements should be referred to P&S-PAS.

Refer all beneficiary inquiries concerning the accuracy of the waiver amount that is reported on the IRS Form 1099-C to BFO/DRD. If BFO/DRD does not have any information, then contact BHA.

Unlike our other tax statement forms (Form RRB-1099, Form RRB-1042S and Form RRB-1099-R), IRS Form 1099-C is not shown on the Statement (STMT) general tax screens (PF 15) due to the low volume of this tax statement form. Field office personnel will not be able to view and/or request IRS Form 1099-C on-line.

Therefore, send all beneficiary requests for a duplicate Copy B of IRS Form 1099-C or a duplicate of the explanation letter to the PAS Supervisor using OUTLOOK e-mail's e-G-115. By doing this, PAS can keep track of any duplicate requests. The PAS supervisor will contact the PAS tax analyst handling the IRS Forms 1099-C. Upon receipt of the duplicate request, the PAS tax analyst(s) will photocopy Copy B of IRS Form 1099-C and/or the explanation letter filed in the **Reading File book** kept in PAS. If there is no IRS Form 1099-C and/or explanation letter in the Reading File book, then the PAS tax analyst(s) will either check the Imaging system or request the claim folder from its present folder location. The PAS tax analyst(s) may check Imaging to see if Copy B of IRS Form 1099-C and/or the explanation letter is in the system. If the necessary information is in Imaging, then the PAS tax analyst(s) will obtain a print of Copy B of IRS Form 1099-C and/or the explanation letter and release those prints to the beneficiary. If the information is not in Imaging, the PAS tax analyst(s) will check the claim folder.

Once the claim folder is in PAS, the PAS tax analyst(s) will photocopy the IRS Form 1099-C and/or the explanation letter filed in the folder and release the photocopies to the beneficiary.

If beneficiaries have questions concerning the taxability of their canceled debt and/or how they should file IRS Form 1099-C with their income tax return, refer them to their local IRS office, own tax preparer and/or IRS booklet, Instructions for Form 1040 and/or Form 1040A. In addition, IRS has a number of publications that are available and may be of assistance to our beneficiaries concerning this topic (IRS Publications 225, 334, 525, 544, 908 and IRS Form 982).

### **335.25 Examiner Instructions On How To Complete IRS Form 1099-C And Accompanying Explanation Letter**

The following are the general instructions (procedure steps) to complete an IRS Form 1099-C and explanation letter:

NOTE: Due to the low volume of cases involving IRS Form 1099-C tax statements, the P&S-PAS tax analysts not TCIS-TS examiners handle all IRS Forms 1099-C and explanation letters.

If a case is reviewed and determined that an IRS Form 1099-C tax statement is not necessary, then the only action is to document that the case has been reviewed and no IRS Form 1099-C is required.

Step 1:

PAS tax analyst(s) will receive a supply of the current tax year IRS Form 1099-C tax statements. In addition, the PAS tax analyst(s) can download free copies of blank IRS Form 1099-C tax statements from the IRS website ([www.irs.gov](http://www.irs.gov)). There are three copies of IRS Form 1099-C in a set and three different IRS Forms 1099-C on a page. Each different IRS Form 1099-C is for a different beneficiary.

Step 2:

PAS tax analyst(s) will use the waiver confirmation letter or data obtained from BFO/DRD or BHA to enter all information onto IRS Form 1099-C.

The entries for IRS Form 1099-C are found in TOM 335.15.

In addition, all entries onto IRS Form 1099-C will be typed by PAS tax analysts. . PAS tax analysts should press/type hard when they are typing so that entries will be shown

on each copy (especially Copy C). If PAS tax analysts deem it necessary, then they may insert carbon paper behind the Copy A page and the Copy B page.

NOTE: If the required entry items are not shown on the waiver confirmation letter or from the information obtained from BFO, the PAS tax analyst will contact BFO/DRD or BHA for clarification.

Step 3:

All correct and original IRS Forms 1099-C will not have the VOID and/or CORRECTED box(es) checked.

However, if you make an error entering the information on Copy A of IRS Form 1099-C, check the VOID box and go to the next Copy A on the page, or to another page and enter the correct information.

Do not use white-out to correct an error on IRS Form 1099-C.

Check the CORRECTED box on Copy A of IRS Form 1099-C only when you are sending a corrected IRS Form 1099-C to the beneficiary after an IRS Form 1099-C for the same tax year was previously sent.

Step 4:

After the IRS Form 1099-C has been correctly completed, PAS tax analyst(s) should do a customized explanation letter. This customized explanation letter will be released along with Copy B of IRS Form 1099-C to the beneficiary.

PAS tax analyst(s) should enter on the explanation letter the following information:

- a) Beneficiary's name and address;
- b) RRB claim number;
- c) Date canceled (waived); and
- d) Amount canceled (waived).

Step 5:

The PAS tax analyst should produce an original explanation letter plus three copies. Also, photocopies should be made of each completed page of the IRS Form 1099-C (Copy A, Copy B, and Copy C):

- 2 photocopies of Copy A;
- 2 photocopies of Copy B;
- 1 photocopy of Copy C.

Step 6:

PAS tax analyst(s) should have the following:

- a) The original explanation letter plus 3 photocopies;
- b) The original completed pages of IRS Form 1099-C (Copies A, B and C):
  - 2 photocopies of Copy A;
  - 2 photocopies of Copy B; and
  - 1 photocopy of Copy C.
- c) You may include a copy of the waiver confirmation letter as an attachment.

Step 7:

PAS tax analyst(s) will release the original Copy B of IRS Form 1099-C with the original explanation letter to the beneficiary on the scheduled mass mailing date. PAS tax analyst(s) will use the mass mailing date as the stamp date on the original explanation letter and photocopies. The mass mailing date will be sometime in January, but no later than January 31 each year. Field offices will be given advance notice of the mass mailing date by P&S-PAS.

Step 8:

PAS tax analyst(s) will retain all the original Copy C of IRS Forms 1099-C and photocopies of the explanation letters in the IRS Form 1099-C Technical (Tech) Files.

Photocopies will be sent to the IRS Form 1099-C Reading File book.

A photocopy of Copy B of IRS Form 1099-C and the explanation letter will be sent to Imaging and/or the beneficiary's claim folder.

Step 9:

PAS tax analyst(s) will send (file) the original pink and white colored Copy A of IRS Form 1099-C to the IRS along with the Form 1096, Annual Summary and Transmittal of U.S. Information Returns, tax return by February 28 each year per IRS regulations. If there are no IRS Forms 1099-C to send to IRS, there is no need to file Form 1096.

For any due date established by IRS, the "file" or "furnish" requirement is met if the form (i.e., tax statement or tax return) is properly addressed and mailed First Class, or sent by an IRS designated delivery service on or before the due date. If the date falls on Saturday, Sunday, or legal holiday the due date is the next business day.

For further information, see the instructions for Form 1096, Annual Summary and Transmittal of U.S. Information Returns, and/or the Instructions for Debtor on the back of Copy B of IRS Form 1099-C, Cancellation of Debt.