

Program Letter

United States Railroad Retirement Board Office of Programs



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TO: Certification Registration, Retirement and Unemployment Contact Officials

SUBJECT: Payroll Tax Provisions under The Tax Relief, Unemployment Insurance
Reauthorization and Job Creation Act of 2010

Please distribute this notice to all individuals within your organization who may need the information in connection with their work.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, recently passed by the Congress and signed into law by President Obama on December 17, 2010, affects current railroad workers in two key ways. Specifically, the law provides a 1-year reduction in employee payroll taxes and provides more extended unemployment benefits for railroad employees.

Payroll Tax Cut.--The Act provides a reduction of 2 percentage points in social security payroll taxes paid by employees. Railroad retirement benefits are divided into two tiers, with Tier I being equivalent to social security benefits.

As a result, the Tier I tax rate on railroad employees will drop from 6.2 percent to 4.2 percent during 2011. Employees will continue to pay a 1.45 percent tax for Medicare hospital insurance, for a total tier I payroll tax rate of 5.65 percent. The maximum amount of earnings subject to the new rate of 4.2 percent remains at \$106,800, although there is no maximum on earnings subject to the Medicare rate. The employer Tier I tax rate remains 7.65 percent.

The Act also provides for the transfer of money from the general fund to the Social Security Equivalent Benefit Account, one of the trust funds from which the Railroad Retirement Board (RRB) pays benefits, in an amount equal to the revenue lost due to the reduced payroll tax rate.

In addition, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 provides for a 2 percentage point reduction in the Tier 1 tax rate for any sickness benefits processed for payment in calendar year 2011 that are subject to Tier 1 taxes. The current, overall tax rate of 7.65% includes 6.2% for Tier 1 and 1.45% for Medicare. The new, reduced rate will be 5.65% which now includes 4.2% for Tier 1 and 1.45% for Medicare, thus increasing the net

amount of sickness benefit payments, except for claimants injured on duty. This is a temporary provision, only applicable to sickness claims processed for payment during calendar year 2011.

If you have any questions regarding the benefits paid based on the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, please contact the Railroad Retirement Board.