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Taxability of Contributions to 401(k) Plans

Some railroad employees have raised questions with the Railroad Retirement Board as to whether their contributions to a 401(k) deferred compensation plan are subject to railroad retirement tier I and tier II payroll taxes.

Federal budget legislation enacted in 1989 and effective January 1, 1990, provided that employee contributions to 401(k) deferred compensation plans are subject to railroad retirement payroll taxes and brought the treatment of 401(k) plans under railroad retirement law into conformity with the treatment of such plans under social security law.

Consequently, employee contributions to a 401(k) plan are also treated as creditable compensation for railroad retirement benefit purposes. For example, an employee earning $50,000 a year, but who has 10 percent of his earnings deferred under a 401(k) plan, would have only $45,000 reported to the IRS as earnings subject to Federal income tax. However, the entire $50,000 would be subject to railroad retirement payroll taxes and therefore creditable as compensation under the Railroad Retirement Act.

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