10 Taxation Legislation

10.05 General

Various legislation enacted between1983 and1986 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 (RECURR) - Each annuitant or beneficiary who receives recurring annuity payments has RECURRs attached to his or her ANNTAXR. RECURR records contain monthly payment information by components. RECURRs may also contain annuity deductions, repayments, and suspension and termination information.

e. The Nonrecurring Rate Record (NORECURR) - Each annuitant or beneficiary who receives one or more nonrecurring annuity payments has one or more NORECURRs attached to his or her ANNTAXR. NORECURRs 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 NORECURRs to capture cash refunds and reclamations that need manual posting to TAS.

c. TAXCOR - TAXCOR is the Facility. It is used to modify existing CLMTAXRs, ANNTAXRs, RECURRs, and NORECURRs. It is used to create correction RECURRs and NORECURRs.

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.

Deduction	**Allocation to Components**
Work Deduction Amounts	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. Survivor recurring work deductions are not component specific. Prorate survivor recurring work deductions over any tier 1, tier 2, and vested dual benefit amounts. 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.
Waiver Amounts	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. 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 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. NOTE:

	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.
Partition Deduction Amounts	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. Allocate supplemental annuity partition deduction amounts to the supplemental annuity.
Garnishment Deduction Amounts	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.
Actuarial Adjustment Amounts	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.
Partial Withholding Repayment Amounts	Partial withholding repayment amounts are component specific. They should be allocated according to the composition of 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. NOTE: Unlike other component specific deduction amounts, repayments may be allocated to annuity components that are no longer payable.
Tax Withholding Amounts	Tax withholding amounts are component specific. Apply tax withholding amounts to the appropriate annuity components.
RR SMIB Deduction Amounts	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. NOTE: Unlike other non-component specific deduction amounts, RR SMIB deduction amounts are not prorated over the regular annuity components. We allocate SMIB to SSEB first to more closely align our SMIB allocation processing with SSA's.

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.

7. 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.

8. 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:

Pre-SSEB / SSEB	**NSSEB**	**Tier 2**	**VDB**	**Supp Ann**
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 <u>RECURR records</u> 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) <u>associated with the **latest** recurring rate records</u> 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 <u>no</u> RECURR records with payment information present in the current tax year, **<u>do not</u>** 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 <u>may be</u> merged with post 1983 payments.
5. Pre-1984 payments <u>may not be</u> 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 **<u>may not pre-complete</u>** 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 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 <u>increase</u> tax deposits. Tax deposit debits <u>decrease</u> 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.

Positive and Negative Tax Withholding and Tax Refund Amounts	**Effect on Tax Deposit Totals**

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 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 NORECURR 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 RECURR Record Amounts

      - Allocate positive current year repayment amounts to recover current year RECURR record payment amounts.

      - Allocate negative deduction amounts to reverse positive deduction amounts posted to the original recurring rate record.

   b. Current Year NORECURR Record Amounts

      - Allocate negative payment amounts by designated tax years to recover current year NORECURR record payment amounts. These include both returned payment NORECURRs and recovered accrual payment NORECURRs. 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 NORECURR record.

- Allocate positive deduction amounts to reverse negative deduction amounts posted to the original NORECURR record. A common example of this would be negative repayment amounts posted in original accrual after overpayment recovery NORECURRs. 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 RECURR 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 NORECURR 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 NORECURR. Process

them on separate TAXCOR correction NORECURRs 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 <u>applicable</u> 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 <u>did not</u> occur and action <u>was not</u> taken to correct tax withholding for the period in question, the NRA tax withholding percentages <u>should reflect the percentages that **should have been applied**</u>, 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 STATTAXRs) 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 NORECURR 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	Tier 2 benefits are taxable as periodic contributory 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. Vested Dual Benefit payments and Supplemental Annuities are taxable as periodic non-contributory private pension payments.
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 Equivalent Benefit (NSSEB) amount, and is taxable as a contributory private pension. 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.
Public Law 99-514, the Tax Reform Act of 1986	Annuity Beginning Dates July 2, 1986 and Later	NSSEB Tier 1 and Tier 2	Employee contribution recovery under the Three Year Rule is repealed. EEC recovery processing falls under the 1986 General Rule or the 1987 General Rule. 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. 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 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	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

		Annuities	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	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. 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.
July 29, 1991 Legal Opinion 91-101, Reporting Employee Contribution and Recovery Amounts.	Tax Years 1992 and Later	NSSEB Tier 1 and Tier 2	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. 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. Effective with tax year 1992, the RRB stopped performing EEC recovery, and stopped determining nontaxable contributory amounts paid.
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. **This is a three member Board approved policy change** covering the general area of tax reporting of retroactive adjustments.	Tax years 1993 and Later	SSEB tier 1 and Overall Minimum Formula Benefits NSSEB tier 1	The RRB will no longer issue corrected tax statements because of a retroactive period of disability (DF). 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 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	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

		Pre-1984 and Post 1983 VDB Supplemental Annuity	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 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 permanently uncollectible. Debts written off as uncollectible, but not permanently uncollectible, are not impacted.
Public Law 103-465, the Uruguay Round Agreements Act, also referred to as the General Agreement on Tariffs and Trade (GATT)	Payments Issued January 1, 1995 and Later	SSEB Tier 1 and Overall Minimum Formula Benefits	The portion of potentially taxable SSEB 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 the General Agreement on Tariffs and Trade (GATT)	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.
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	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.

		Annuities	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 proposed change in tax statement reporting of annuity cancellations March 22, 2002 Chief of Payment, Analysis, and Systems Policy Decision	Tax Statements Prepared January 1, 2002 and Later	Reportable payments, repayments, tax withholding amounts, etc.	Otherwise reportable payments and repayments associated with periods covered by annuity application cancellations are to be reported for the year in which they occur. 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.
Public Law	Payments	SSEB Tier 1	Voluntary U.S. citizen

108-27, the Jobs and Growth Tax Relief Reconciliation Act of 2003	Issued August 1, 2003 and Later	and OM Formula Benefits NSSEB Tier 1, Tier 2, VDB, and Supplemental Annuities	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.
Public Law 111-5, the American Recovery and Reinvestment Act of 2009	Payments Issued April 2009 and Later	NSSEB Tier 1, Tier 2, VDB, and Supplemental Annuities	U.S. citizen tax table rates were lowered from the rates in effect as of the first of the year.
Public Law 111-115, the No Social Security Benefits for Prisoners Act of 2009. September 7, 2010 Legal opinion L-2010-07, Payment and Taxation Impact of the legislation.	Payments Issued December 15, 2009 and Later	SSEB and NSSEB Tier 1 payments and SSEB OM payments.	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). The RRA has no payment restrictions. Accrued tier 1 and OM payments may be issued to these same individuals. <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.

			Accruals due for periods **before** what would be nonpayment periods at SSA - Tier 1 should be paid as SSEB or NSSEB or SSEB/NSSEB splits without regard to the nonpayment period, and the OM should include the individual in the computation and be paid as SSEB.

TOM 20 Exhibit 2, History of Tax Statement Forms Used to Report Federally Taxable RRA Payments and Repayments

Tax Statement Type	Effective Tax Years	Individuals Taxed As	RRA Payments Affected
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

TOM 20 Exhibit 3, Simplified Tax Accounting Effective Tax Year 1994 – Merge and Cross Component Recovery Processing

1. **<u>The Merge Occurs Only Within a Component</u>.**

   <u>The merge is the act of netting overpayments and underpayments within a component</u>. 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
SSEB Total	**$ 0.00**	**$ 0.00**

Component & Tax Years	Original Amounts	Amounts After the Merge
NSSEB Yr 1	**-** $1,000.00	**-** $ 500.00
NSSEB Cur Yr	+ $ 500.00	$ 0.00
NSSEB Total	**- $ 500.00**	**- $ 500.00**

a. Pre-1984 Tier 2 and VDB Overpayments <u>May Be Merged</u> With Like Component Post 1983 Underpayments.

Merging pre-1984 overpayments with post 1983 underpayments reduces reportable post 1983 underpayments. <u>Reducing payments</u> 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	**+ $ 500.00 PD**

b. Pre-1984 Tier 2 and VDB Underpayments <u>MAY NOT Be Merged</u> 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. <u>Increasing repayments</u> 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	**+ $ 500.00 REPD**

2. **<u>Cross Component Recovery Occurs Only Across or Between Components.</u>**

<u>Cross component recovery is the act of recovering one or more component overpayment(s) from one or more component underpayment(s)</u>. It is performed <u>after</u> 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 **+ $ 400.00 REPD**
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	**+ $ 400.00 PD**
NSSEB Total	+ $ 400.00	+ $ 400.00	+ $ 400.00 PD

Component & Tax Years	Original Amounts	Amounts After the Merge	Amounts After CC Recovery
SSEB Yr 2	- $ 1500.00	- $ 700.00	- $ 200.00 **+ $ 500.00 REPD**
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	**+ $ 500.00 PD**
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. (<u>If PDs are > or = OPs, then REPDs = OPs</u>)**

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. (<u>If PDs are < OPs, then REPDs = PDs</u>)

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. <u>Multiple Deductions and the Order in Which They Should be Applied to Annuity Components</u>

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

	RRA Annuity Deductions
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. <u>Component Specific Deductions and Non-Component Specific Deductions.</u>

Component Specific	**Non-Component Specific**
Work Deductions	Garnishments
Partitions	Actuarial Adjustments
Some Waivers	Some Waivers
Repayments	Tax Withholding
	SMIB Premiums

C. <u>Example of Allocating Multiple Annuity Deductions to Components.</u>

Gross Paids: Reg Ann = $2,200.00 / Supp Ann = $43.00
$1,000.00 SSEB
$ 400.00 NSSEB
$ 600.00 Tier 2
$ 200.00 VDB
$ 43.00 Supp Ann

Deductions: Reg Ann = $1,255.00 / Supp Ann = $ 41.50
$ 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
$1,000.00 Pd	**$ 400.00 Pd**	**$ 600.00 Pd**	**$ 200.00 Pd**	**$ 43.00 Pd**
- $ 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				
$ 391.01 Pd	**$ 294.26 Pd**	**$ 118.42 Pd**	**$141.31 Pd**	**$ 1.50 Pd**

Net Regular Annuity	Net Supp Ann
$ 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. <u>Original Payment Date is EARLIER THAN OR EQUAL TO the Month of Death</u>

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. <u>Original Payment Date is LATER THAN the Month of Death</u>

Recovered Payment Type	**Component Type**	**Recovery Handled As**	**Gross/Net of TWH**	**Gross/Net of SMIB**
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