

Reporting Instructions for Creditable Sickness Payments

Chapter 4: Form CT-1

Employer's Annual Railroad Retirement Tax Return and Tax Issues

The railroad retirement system's annuity programs are funded by mandatory employment taxes on both employees and employers under the Railroad Retirement Tax Act (RRTA). Under the RRTA, sick pay is subject only to Tier I tax. Sick pay is not subject to Tier II tax.

Under the RRTA, the Tier I tax is collected by the [Internal Revenue Service](#) (IRS) and compensation is subject to the tax rates and earnings base in effect when payment is made. In other words, taxation under the RRTA is on a paid basis and is always reported in the payment year.

Sick Pay: Taxed When Paid, Reported as Taxed

Under the Railroad Retirement Act (RRA), sick pay is creditable only by virtue of the fact that it is subject to Tier I employment tax. Consequently, sick pay should be reported for the period when payments are made; in other words, when the tax is imposed.

In this respect, sick pay differs from regular railroad retirement earnings. The general definition of compensation relates the creditability of compensation to the performance of service for which remuneration is earned. When crediting compensation under the RRA, rail carrier employers may choose to report regular compensation either to the period in which the services were rendered (earned basis) or to the period in which payment is made (paid basis). But sickness payers should simply report the sick pay for the period when paid. It is immaterial when the employee actually took the sick days which resulted in the payment.

Summary: For sick pay, the tax treatment of a payment under the RRTA should be consistent with the manner in which the payment is credited as compensation under the RRA.

Tier I Tax: Retirement and Medicare

Tier I tax is divided into two parts, retirement and Medicare. The amount of compensation subject to each part is different. Tier I retirement tax applies to the Tier I maximum earnings base. There is no maximum limit for the Tier I Medicare tax. Ordinarily, sickness payments received by an individual in a year would not exceed the Tier I maximum earnings base.

The aggregate amount paid for each part of the Tier I tax paid to all payees in a year is reflected on line entries on the [Form CT-1](#).

Form CT-1, Employer's Annual Railroad Retirement Tax Return

Sick pay employers must file an annual tax return, [Form CT-1](#), Employer's Annual Railroad Retirement Tax Return, with the IRS. Other third party sickness payers must provide the information to the railroad employer to be included on their CT-1. All Forms CT-1 are filed at the Kansas City Service Center of the IRS because railroad retirement tax operations are centralized there. The due date for the Form CT-1 is the same as for the Railroad Retirement Board's (RRB's) Form BA-3; the last day of February for the preceding calendar year.

Reporting Instructions for Creditable Sickness Payments

Chapter 4: Form CT-1

[Form CT-1](#) is an IRS form, not a RRB form. Form CT-1 and its separate instructions are released to CT-1 filers by the IRS in December of every year and they are available on the IRS website.

Tax Deposits

Railroad retirement tax deposits are made to an authorized financial institution or a Federal Reserve Bank or branch, not to the IRS directly or to the RRB. The law provides penalties for late filing of a [Form CT-1](#), late payment of taxes, or late deposits. Interest is charged on taxes paid late at the rate set by law.

Completing Form CT-1

[Form CT-1](#) is the only form on which Medicare taxes are shown. There is no report which must be filed with the RRB showing the amount of Medicare tax deducted from the sick pay received by an individual.

The following four lines on Form CT-1 relate specifically to the Tier I tax liability on sick pay:

- Tier I Employer Tax
- Tier I Employer Medicare Tax
- Tier I Employee Tax
- Tier I Employee Medicare Tax

How these lines are completed depends upon the type of sick benefit paid and who is making the payments. The following CT-1 examples illustrate how sick pay tax may be shown on those lines.

Example 1: A third party sickness payer is liable for only the employee portion of the tax. Therefore, complete only the lines showing the employee portion of the tax. Enter a 0 (zero) for all other lines.

Example 2: An RRA covered employer which contracts with a sickness payer should only deposit the employer's share of the Tier I taxes and complete only the employer tax lines with respect to sick pay.

Example 3: An RRA covered employer which pays sick pay pursuant to a self-administered plan should complete the lines for both employee and employer tax. The employer is directly responsible for withholding employee tax, and depositing that tax.

Example 4: An RRA covered employer is responsible for payment of the employer tax on sickness payments paid to its employees by the RRB pursuant to the Railroad Unemployment Insurance Act. Based on the ID-6 information provided to the employer, the employer should complete the lines for employee tax.

Reporting Instructions for Creditable Sickness Payments

Chapter 4: Form CT-1

IRS/RRB Coordination

The IRS and the RRB have coordination procedures for their respective functions in connection with railroad retirement. A copy of each payer's completed [Form CT-1](#) is sent to the RRB for tax reconciliation with that payer's reported creditable compensation for the year. The total creditable compensation under the RRA reported to the Compensation and Employer Services Center (CESC) for your payees for a given calendar year should be consistent with the total taxable compensation reported to the IRS on Form CT-1 for that calendar year.

Taxation Authority

However, because the RRTA is under the jurisdiction of the [IRS](#), the RRB has no authority to provide definitive answers to railroad retirement tax questions. Your tax questions can be answered by contacting an IRS CT-1 specialist at (859) 669-2134.