

Program Letter

United States Railroad Retirement Board Office of Programs



Quality Reporting Service Center

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Date: 12/30/04

TO: Certification Contact Officials

SUBJECT: Changes in Creditable Compensation for Stock Options

Please share this information with the appropriate members of your staff who file service and compensation reporting forms for employees of your organization.

PURPOSE

The purpose of this letter is to advise employers of new instructions governing reporting statutory stock options as creditable compensation.

PRIOR LAW

Under previous law any qualified employee statutory stock option plan purchased by an employee was not considered creditable compensation under the Railroad Retirement Act (RRA) or Railroad Unemployment Insurance Act (RUIA); nor was it considered taxable compensation under the Railroad Retirement Tax Act (RRTA).

However, the difference between the option price and the fair market value of the stock (commonly referred to as the "spread") at the time of exercise was considered creditable compensation under the RRA & RUIA and taxable compensation under the RRTA.

NEW LAW

Under Public Law (P.L.) 108-357, effective with tax year 2002, the exercise of a statutory stock option does not yield taxable compensation under the RRTA. As a result, the Railroad Retirement Board has determined that the exercise of a statutory stock option does not yield creditable compensation under the RRA or RUIA.

QUESTIONS

If you have questions concerning creditable compensation under the RRA or RUIA, please contact a Compensation Reporting Specialist by email at QRSC@RRB.GOV or by

telephone at (312)751-4992. If you have questions about taxable compensation, please contact the Internal Revenue Service, as they administer the RRTA.