



RRB News

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Railroad Retirement and Unemployment Insurance Taxes in 2021

The amounts of compensation subject to railroad retirement tier I and tier II payroll taxes will increase in 2021, while the tax rates on employers and employees will stay the same. In addition, unemployment insurance contribution rates paid by railroad employers will include a surcharge of 2.5 percent, partially reflecting increased unemployment claims due to the pandemic.

Tier I and Medicare Tax.--The railroad retirement tier I payroll tax rate on covered rail employers and employees for 2021 remains at 7.65 percent. The railroad retirement tier I tax rate is the same as the social security tax, and for withholding and reporting purposes is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of an employee's earnings subject to the 6.20 percent rate increases from \$137,700 to \$142,800 in 2021, with no maximum on earnings subject to the 1.45 percent Medicare rate.

An additional Medicare payroll tax of 0.9 percent applies to an individual's income exceeding \$200,000, or \$250,000 for a married couple filing a joint tax return. While employers will begin withholding the additional Medicare tax as soon as an individual's wages exceed the \$200,000 threshold, the final amount owed or refunded will be calculated as part of the individual's Federal income tax return.

Tier II Tax.--The railroad retirement tier II tax rates in 2021 will remain at 4.9 percent for employees and 13.1 percent for employers. The maximum amount of earnings subject to railroad retirement tier II taxes in 2021 will increase from \$102,300 to \$106,200. Tier II tax rates are based on an average account benefits ratio reflecting railroad retirement fund levels. Depending on this ratio, the tier II tax rate for employees can be between 0 percent and 4.9 percent, while the tier II rate for employers can range between 8.2 percent and 22.1 percent.

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Unemployment Insurance Contributions.--Employers, but not employees, pay railroad unemployment insurance contributions, which are experience-rated by employer. The Railroad Unemployment Insurance Act also provides for a surcharge in the event the Railroad Unemployment Insurance Account balance falls below an indexed threshold amount. The accrual balance of the Railroad Unemployment Insurance Account was \$53.7 million on June 30, 2020. This was below the indexed threshold of \$73.7 million, triggering a 2.5 percent surcharge in 2021. There was no surcharge imposed in 2020, following five consecutive years of a 1.5 percent surcharge.

As a result, the unemployment insurance contribution rates on railroad employers in 2021 will range from the minimum rate of 3.15 percent to the maximum of 12 percent on monthly compensation up to \$1,710, an increase from \$1,655 in 2020.

In 2021, the minimum rate of 3.15 percent will apply to about 87 percent of covered employers, with almost 5 percent paying the maximum rate of 12 percent. New employers will pay an unemployment insurance contribution rate of 3.15 percent, which represents the average rate paid by all employers in the period 2017-2019.

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