

Legislation Reduces Payroll Taxes and Extends Unemployment Benefits for Rail Workers

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, recently passed by the Congress and signed into law by President Obama on December 17, 2010, affects current railroad workers in two key ways. Specifically, the law provides a 1-year reduction in employee payroll taxes and provides more extended unemployment benefits for railroad employees.

Payroll Tax Cut.--The Act provides a reduction of 2 percentage points in social security payroll taxes paid by employees. Railroad retirement benefits are divided into two tiers, with tier I being equivalent to social security benefits.

As a result, the tier I tax rate on railroad employees will drop from 6.2 percent to 4.2 percent during 2011. Employees will continue to pay a 1.45 percent tax for Medicare hospital insurance, for a total tier I payroll tax rate of 5.65 percent. The maximum amount of earnings subject to the new rate of 4.2 percent remains at \$106,800, although there is no maximum on earnings subject to the Medicare rate. The employer tier I tax rate remains 7.65 percent.

For a railroad employee making \$70,000 a year, the payroll tax reduction provides \$1,400 in savings, while someone making the maximum taxable amount of \$106,800 would have savings of \$2,136. On an industry-wide basis, this reduction should provide more than \$300 million in tax savings to about 250,000 railroad employees.

The Act also provides for the transfer of money from the general fund to the Social Security Equivalent Benefit Account, one of the trust funds from which the Railroad Retirement Board (RRB) pays benefits, in an amount equal to the revenue lost due to the reduced payroll tax rate.

Extended Unemployment Benefits.--Under previous law, railroad workers with less than 10 years of service were eligible for up to 65 days of extended unemployment benefits, while workers with 10 or more years of service could receive up to 130 days of extended benefits. To qualify for these benefits, the employee had to claim regular unemployment benefits between July 1, 2008, and June 30, 2010. In addition, the latest date that an extended benefit period could begin was December 31, 2010.

The December 2010 law provides a 1-year extension, offering extended benefits to anyone who claims regular unemployment benefits through June 30, 2011, and exhausts rights to regular benefits. The new law also extends the cut-off date for beginning extended benefits to December 31, 2011.

As a result, unemployed workers with less than 10 years of service are eligible for up to 65 days of extended benefits within 7 consecutive 2-week registration periods. Those with 10 or more years of service can receive up to 130 days within 13 consecutive 2-week registration periods.

The RRB will notify individuals of their rights to extended benefits as they become eligible and also provide any applicable claim forms. Employees may file these claims securely online at the agency's website, www.rrb.gov, or mail them to the RRB office serving their area.

Besides viewing the website, railroad workers can get more information about the law or find the RRB office serving their area by calling the agency's toll-free telephone number at 1-877-772-5772.