

1994



Department of the Treasury
Internal Revenue Service

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

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping 9 hr., 49 min.

Learning about the law or the form 2 hr., 6 min.

Preparing the form 5 hr., 8 min.

Copying, assembling, and sending the form to the IRS 48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Attention: Tax Forms Committee, PC:FP, Washington, DC 20224; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-0001), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, see the instructions below on where to file.

Highlights

New for 1994.—The compensation base is \$60,600 for the Tier I tax and there is no maximum limit for the Tier I Medicare tax. For employers and employees, the tax rate is 6.2% each for Tier I tax and 1.45% each for Tier I Medicare tax.

The supplemental tax rate has been reduced to 30 cents for each employee work-hour of service performed during 1994.

The Railroad Unemployment Repayment Tax (RURT) was in force from October 1985 until June 1993, when the loans and interest were fully paid. Because of this repayment, the lines were removed from the form.

1995 Information.—The Tier II employee tax rate remains at 4.90% and the employer tax rate remains at 16.10% for 1995.

For 1995, if your total deposits of withheld income, social security, Medicare, and railroad retirement taxes were more than \$78 million in calendar year 1993, you must use electronic funds transfer. See Temporary Regulations 31.6302-1T and Rev. Proc. 94-48, 1994-29 I.R.B. 31.

General Instructions

Purpose of Form

Use this form to report taxes imposed by the Railroad Retirement Tax Act (RRTA).

Who Must File

File Form CT-1 if you paid one or more employees compensation subject to RRTA.

Sick pay, including payments by the employer or by a third party, is subject to Tier I railroad retirement and Medicare taxes. See **Pub. 952**, Sick Pay Reporting, for details. However, see the exceptions under the definition of compensation below. Report sick pay payments on lines 11 through 14.

Where and When To File

File the original and duplicate with the Internal Revenue Service Center, Kansas City, MO 64999.

You must file this 1994 return and pay the taxes on or before February 28, 1995.

If you stop paying taxable compensation, you must file a return and mark the box at the top of the return.

Definitions

The terms "employer" and "employee" used in these instructions are defined in section 3231 of the Internal Revenue Code and in the applicable regulations.

The term "compensation" means payment in money, or in something that may be used instead of money, for services performed as an employee to one or more employers. It includes payment for time lost as an employee. It does not include:

- Any benefit provided to or on behalf of an employee if at the time the benefit is provided it is reasonable to believe the employee can exclude such benefit from income, for example, under sections 74(c), 117, and 132 of the Internal Revenue Code. Section 74(c) deals with employee achievement awards; section 117 deals with scholarship and fellowship grants; and section 132 deals with certain fringe benefits. For more information on what benefits are excludable, see **Pub. 937**, Employment Taxes.

- Payments made to or on behalf of an employee or dependents under a sickness or accident disability plan or a medical or hospitalization plan in connection with sickness or accident disability.

Note: For purposes of employee and employer Tier I taxes, compensation does not include sickness or accident disability payments made—

- Under a worker's compensation law,
- Under section 2(a) of the Railroad Unemployment Insurance Act for days of sickness due to on-the-job injury,
- Under the Railroad Retirement Act, or
- More than 6 months after the calendar month the employee last worked.

- Payments made specifically for traveling or other bona fide and necessary expenses that

meet the rules in the regulations under section 62 of the Internal Revenue Code.

- Payments for service performed by a nonresident alien temporarily present in the United States as a nonimmigrant under subparagraphs (F), (J), (M), or (Q) of the Immigration and Nationality Act.

If compensation earned in any month by an employee in the service of a local lodge or division of a railway-labor-organization employer is less than \$25, do not count it as taxable compensation.

Successor employers should see Code section 3231(e)(2)(C) to see if they can use the predecessor's compensation paid against the maximums.

Compensation is considered paid when it is actually paid or when it is constructively paid. It is considered constructively paid when it is credited to the account of an employee or set apart for the employee without any limit or condition on how and when the payment is to be made and when it is made available for the employee to draw on at any time and to control.

Rates of Employer (Including Supplemental Tax) and Employee Taxes

Railroad Retirement Taxes

Employer Tax Rates for 1994.—Employer taxes are divided into Tier I and Tier II taxes. Tier I tax is divided into two parts. The amount of compensation subject to each tax is different.

Tier I tax (6.2% rate) applies to the first \$60,600 of compensation paid in 1994. Tier I Medicare tax (1.45% rate) applies to all of the compensation paid in 1994.

Tier II tax, at the rate of 16.10%, applies to the first \$45,000 of compensation paid in 1994.

The employer is also subject to a supplemental tax at the rate of 30 cents for each employee work-hour in 1994. (See instructions for line 1 for the definition of work-hours.)

Employee Tax Rates for 1994.—The employee is subject to Tier I tax, at the rate of 6.2%, on the first \$60,600 of compensation paid in 1994. Tier I Medicare tax (1.45% rate) applies to all of the compensation paid in 1994.

The employee is also subject to Tier II tax at the rate of 4.90%. This tax applies to the first \$45,000 of compensation paid in 1994.

Concurrent Employment

If two or more related corporations who are rail employers concurrently employ the same individual and compensate that individual through a common paymaster which is one of the related corporations employing the individual, each of the corporations is considered to have paid only the compensation it actually disburses to that individual.

Collection of Employee Tax by Employer

You must collect the employee railroad retirement tax from each employee by deducting it from the compensation on which employee tax is charged. If you do not collect

the employee tax, you are liable for the tax. If you collect too much or too little employee tax because you cannot determine the correct amount to deduct, you should correct the amount deducted by an adjustment, credit, or refund according to the regulations relating to the RRTA.

If you pay the RRTA tax for your employee rather than deducting it, see Rev. Proc. 83-43, 1983-1 C.B. 778, for information on how to report the amounts.

Note: *Include on your employee's Form W-2, the cost of group-term life insurance in excess of \$50,000 that you buy for an employee. Show only the amount that is includible in the employee's gross income. This amount is subject to Tier I, Tier I Medicare, and Tier II taxes. The employee must pay the Tier I, Tier I Medicare, and Tier II taxes for the coverage during which an employment relationship no longer exists. (See Pub. 525, Taxable and Nontaxable Income, for details.)*

Payment of Tax

Railroad Retirement Tax

How To Make Deposits.—In general, you must deposit railroad retirement taxes of \$500 or more with an authorized financial institution or a Federal Reserve bank or branch. Use **Form 8109**, Federal Tax Deposit Coupon, which must be included with each deposit to indicate the type of tax deposited. To avoid a possible penalty, do not mail your deposit directly to the IRS. Records of your deposits will be sent to the IRS for crediting to your business accounts. If you had railroad retirement taxes that totaled \$1 million or more for a calendar year 2 years prior to this calendar year, you must make deposits by wire transfer, which is explained in Rev. Proc. 83-90, 1983-2 C.B. 615, available from IRS district offices.

For 1995, if your total deposits of withheld income, social security, Medicare, and RRTA taxes were more than \$78 million in calendar year 1993, you must use electronic funds transfer. See Temporary Regulations 31.6302-1T and Rev. Proc. 94-48, 1994-29 I.R.B. 31.

Rules When Your Deposits Are Due.—The amount of taxes you owe determines the frequency of deposits. You owe these taxes when you pay the compensation, not when your payroll period ends. The rules below tell you how often to deposit taxes.

You are either a monthly or a semiweekly depositor. The IRS will notify you each November what your deposit status is for the coming calendar year, based on the following rules. If you do not receive the notification, you must determine your own deposit status.

Your deposit schedule for a calendar year is determined from the total RRTA taxes reported on your Form CT-1 for a calendar lookback period. This lookback period is the second calendar year preceding the current calendar year. For example, the lookback period for calendar year 1995 is calendar year 1993. If you reported **\$50,000 or less** of RRTA taxes for 1993, you are a monthly depositor; if you reported **more than \$50,000**, you are a semiweekly depositor. There are two special exception rules—the **\$500** rule and the **\$100,000** rule. The deposit rules and exceptions are discussed in the following sections.

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Monthly Deposit Schedule Rule.—Under the monthly rule, employee and employer Tier I and Tier II tax accumulated during a calendar month must be deposited by the 15th day of the following month. An employer is a monthly depositor for a calendar year if the total RRTA taxes for the lookback period were \$50,000 or less.

New Employers.—During the first calendar year of your business, your taxes for the lookback period shall be treated as zero. Therefore, you are a monthly depositor for the first year of business (but see the **\$100,000 One-Day Deposit Rule** exception later).

Semiweekly Deposit Schedule Rule.—An employer is a semiweekly depositor for a calendar year if the total RRTA taxes during its lookback period were more than \$50,000. Under the semiweekly rule, amounts accumulated on payments made on Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday. Amounts accumulated on payments made on Saturday, Sunday, Monday, and/or Tuesday must be deposited by the following Friday.

Deposits on Banking Days Only.—If a deposit is required to be made on a day that is not a banking day, the deposit is considered to have been made timely if it is made by the close of the next banking day. In addition to Federal and State holidays, Saturdays and Sundays are treated as nonbanking days. For example, if a deposit is required to be made on Friday and Friday is not a banking day, the deposit will be considered timely if it is made by the following Monday.

A special rule is provided for semiweekly depositors which allows these depositors at least 3 banking days to make a deposit. For example, if a semiweekly depositor has RRTA taxes accumulated for payments made on Friday and the following Monday is not a banking day, deposits made by the following Thursday would be considered timely (allowing 3 banking days to make the deposit).

\$500 Rule.—If an employer accumulates less than \$500 RRTA tax liability during a year, no deposits are required and this liability may be paid with the tax return for the year. However, if you are unsure that you will accumulate less than \$500, it would be prudent to deposit in accordance with the appropriate depositor rules. If you were to accumulate a liability of \$500 or more by the end of the year and failed to make your deposits, you would be subject to deposit penalties.

\$100,000 One-Day Deposit Rule.—If \$100,000 or more is accumulated on any day during a deposit period, it must be deposited by the next banking day, whether an employer is a monthly or semiweekly depositor. For monthly depositors, the deposit period is a calendar month. The deposit periods for a semiweekly depositor are Wednesday through Friday and Saturday through Tuesday. For purposes of the \$100,000 rule, do not continue accumulating RRTA tax liability after the end of a deposit period. For example, if a semiweekly depositor has accumulated a liability of \$95,000 on a Tuesday (of a Saturday-through-Tuesday accumulation period) and accumulated a \$10,000 liability on Wednesday, the \$100,000 one-day rule does not apply.

If a monthly depositor accumulates a \$100,000 RRTA tax liability on any day, it becomes a semiweekly depositor on the next day and remains so for the remainder of the calendar year and for the following calendar year.

Example of \$100,000 One-Day Deposit Rule.—Employer B started its business on February 1, 1995. On February 8, it paid compensation for the first time and accumulated an RRTA tax liability of \$60,000. On February 15, Employer B paid compensation and accumulated a liability of \$40,000, bringing its accumulated RRTA tax liability to \$100,000. Because this was the first year of its business, the RRTA tax liability for its lookback period is considered to be zero, and it would be a monthly depositor based on the lookback rules. However, since Employer B accumulated \$100,000 on February 15, it became a semiweekly depositor on February 16. It will be a semiweekly depositor for the remainder of 1995 and for 1996. Employer B is required to deposit the \$100,000 by February 16, the next banking day.

Adjustments and the Lookback Rule.—Determine your RRTA tax liability for the lookback period based on the RRTA tax liability as originally reported. If you made adjustments to correct errors on previously filed RRTA tax returns, these adjustments do not affect the amount of RRTA tax liability for purposes of the lookback rule. If you report adjustments on your current RRTA tax return to correct errors on prior period returns, include these adjustments as part of your RRTA tax liability for the current period. If you filed **Form 843**, Claim for Rebate and Request for Abatement, to claim a refund for a prior period overpayment, your RRTA tax liability does not change for either the prior period or the current period for purposes of the lookback rule.

Example of Adjustments and the Lookback Rule.—An employer originally reported an RRTA tax liability of \$45,000 for the lookback period (1993). The employer discovered during March 1995 that the tax during the lookback period was understated by \$10,000 and corrected this error with an adjustment on the 1995 return. This employer would be a monthly depositor for 1995 since the lookback period RRTA tax liabilities are based on the amounts originally reported and were less than \$50,000. The \$10,000 adjustment would be treated as part of the 1995 RRTA tax liability.

Accuracy of Deposits (98% Rule).—You will be considered to have satisfied the above deposit requirements if you deposit timely at least 98% of your RRTA tax liability or if any deposit shortfall does not exceed \$100. No deposit penalties will be applied if the above shortfall is deposited by the shortfall makeup date. The shortfall makeup date for monthly depositors is the due date for the return period in which the shortfall occurs. The makeup date for semiweekly or one-day rule depositors is the first Wednesday or Friday, whichever is earlier, falling on or after the 15th day of the month following the month in which the shortfall occurred or, if earlier, the return due date for the period in which the shortfall occurred.

Supplemental Tax.—Supplemental tax accumulated during a month must be deposited on or before the first date after the

15th day of the following month on which RRTA taxes are required to be deposited. For example, Employer B accumulates supplemental tax for the month of February. The supplemental tax must be deposited the next time RRTA taxes are required to be deposited after March 15. For a monthly depositor this would be April 15.

Penalties and Interest

The law provides penalties for late filing of a return, late payment of taxes, or late deposits unless reasonable cause is shown for the delay. If you are unavoidably late in doing any of these, send an explanation with the return.

Caution: *If taxes that must be withheld are not withheld or are not paid to the IRS, the Trust Fund Recovery Penalty may apply. The penalty is 100% of such unpaid taxes. This penalty may apply to you if these unpaid taxes cannot be immediately collected from the employer or business. The Trust Fund Recovery Penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. See **Circular E, Employer's Tax Guide**, for more details.*

Interest is charged on taxes paid late at the rate set by law.

Specific Instructions

Line 1. Supplemental Tax

Except for employees covered by a supplemental pension plan established by a collective bargaining agreement between you and those employees, you are required to report work-hours for all compensation that involves a time or mileage factor.

Include time actually worked; time paid for vacations and holidays; time (but not cash payments) allowed for meals; away-from-home terminal time, called and not used, runaround, and deadheading payments; and pay for attending court, investigations, and claim and safety meetings. Report hours representing payments to make up guarantees (other than weekly or monthly money guarantees) only if the payments are made for time not actually worked. Report hours representing payments to make up weekly or monthly money guarantees only if the hours or days included in the assignments are not actually worked. Report the number of hours paid for overtime, regardless of the rate at which paid. All compensation paid as arbitraries or allowances independently of the rate and not specifically related to hours or miles, including vacation allowances based on compensation earned in the previous year, should be converted to hours by dividing by the appropriate hourly rate. Generally, do not report hours representing medical expense reimbursements or payments for periods of absence from work due to sickness or accident disability. Do not report hours representing payments made under arrangements that advance or reimburse to employees their business and away-from-home traveling expenses if fully accounted for and substantiated. See the regulations under section 62 of the Internal Revenue Code.

Determining Number of Hours Included in Daily, Weekly, or Monthly Rates.—If a collective bargaining agreement specifies the

number of hours included in a rate, use that number. Otherwise, report the number of hours the individual involved usually works even though on occasion the employee may work fewer or more hours. For example, an individual on an all-service rate who normally observes the office hours usually worked by employees generally would be reported at 8 hours per day, 5 days per week—or 174 hours per month. Unless otherwise provided in a collectively bargained rule, 174 hours should be used as the standard hourly factor for monthly rated employees.

Treatment of Compensation Paid on a Mileage or Piecework Basis.—For employees on a mileage basis of pay, report straight-time compensation as hours figured at the appropriate speed basis. For example, under agreements generally applicable, divide miles paid for in straightaway passenger service by 20 and in freight service by 12.5 and report the result. Report straight-time piecework compensation at the average number of hours for the average unit piecework price. Report only the number of overtime hours actually worked regardless of the rate at which paid.

Supplemental Tax Rate.—The supplemental tax rate is 30 cents for each employee work-hour of service performed during 1994.

Multiply the work-hours for which compensation was paid by \$0.30 and enter the result on line 1.

Safe Harbor Election for 1995.—You may elect to count the number of employees who received any compensation during the month and multiply that figure by 164 to determine the number of work-hours subject to the supplemental tax for that month. Each individual who is paid compensation during the month in question is counted, even if the individual is part-time, temporary, seasonal, or did not actually perform any services for you during the month. This method must be used for the entire year if elected.

If you are going to use the safe harbor for 1995, you must elect it by marking the box on your timely filed 1994 return.

Line 2. Special Supplemental Tax

If you are exempt from the supplemental tax on line 1 on some or all of your employees because they are covered by a supplemental pension plan established by a collective bargaining agreement, you are subject instead to a special supplemental tax. The tax is equal to the total supplemental annuities paid to those employees on or after April 1, 1970, plus a percentage for administrative costs. The Railroad Retirement Board will notify you of the amount due and the deposit requirement on Form G-241. Enter that amount on line 2 and attach Form G-241 to each copy of Form CT-1.

Line 3. Adjustments to Supplemental Tax

You may take a credit on line 3 in an amount equal to the total monthly reduction of employee supplemental annuities under section 2(h)(2) of the Railroad Retirement Act of 1974.

Note: *This credit may not be more than your monthly tax liability based on 30 cents for each work-hour for which compensation is paid.*

You cannot claim the excess on line 16. However, you may apply excess credits against your supplemental tax accruing in later months. The Railroad Retirement Board will furnish you with a quarterly statement identifying the supplemental tax credit accruing to you. Attach one copy of the statement to the original of Form CT-1.

If the amount you enter on line 3 differs from that certified by the Railroad Retirement Board, attach an explanation to the original and duplicate copy of the return. Include in your reconciliation of line 3 adjustments to the supplemental tax credit as certified by the Railroad Retirement Board.

Line 5. Tier I Employer Tax

Show the amount of compensation (other than tips and sick pay) subject to Tier I tax. Do not show more than \$60,600 per employee. Multiply by 6.2% and enter the result.

Line 6. Tier I Employer Medicare Tax

Show the amount of compensation (other than tips and sick pay) subject to Tier I Medicare tax. Multiply by 1.45% and enter the result.

Line 7. Tier II Employer Tax

Show the amount of compensation (other than tips) subject to Tier II tax. Do not show more than \$45,000 per employee. Multiply by the employer tax rate of 16.10% and enter the result.

Line 8. Tier I Employee Tax

Show the amount of compensation, including tips reported, subject to employee Tier I tax. Only the first \$60,600 of the employee's compensation is taxable. Multiply by 6.2% and enter the result.

Line 9. Tier I Employee Medicare Tax

Show the amount of compensation, including tips reported, subject to employee Tier I Medicare tax. Multiply by 1.45% and enter the result.

What Are Taxable Tips?—Cash tips received by an employee in the course of employment must be reported to you by the employee by the 10th of the month following the month the tips are received. No report should be made for any month in which the tips were less than \$20, but otherwise tips should be reported for every month regardless of the total of compensation and tips for the month. An employee must furnish you with a written statement of tips showing (a) his or her name, address, and social security number, (b) your name and address, (c) the calendar month or period for which the statement is furnished, and (d) the total amount of tips. **Pub. 1244, Employee's Daily Record of Tips Report to Employer**, a booklet for daily entry of tips and forms to report tips to employers, may be obtained from the IRS.

You must collect both income tax and employee railroad retirement tax on tips reported by employees from compensation (after deduction of employee railroad retirement and income tax) due the employee or from other funds the employee makes available. Tips are considered to be paid at the time the employee reports them to you. You should apply the compensation or other funds first to the railroad retirement tax and then to income tax.

Stop collecting the 6.2% Tier I employee tax when the tax has been withheld on \$60,600 for the year. However, your liability for Tier I employer tax on compensation continues until the compensation, not including tips, totals \$60,600 for the year. Income tax withholding applies to all compensation even though the railroad retirement annual limit has been reached.

If by the 10th day of the month following the month an employee's tip income report was received, you do not have enough employee funds to deduct the employee tax, you are no longer liable for collecting the tax for that month.

Line 10. Tier II Employee Tax

Show the amount of compensation, including tips reported, subject to Tier II employee tax. Only the first \$45,000 of the employee's compensation for 1994 is subject to this tax. Multiply by the employee tax rate of 4.90% and enter the result. For tips, see instructions for line 9 above.

Note: *If your employer-employee tax rates (lines 5 through 10) do not agree with the rates shown on the Form CT-1 because of section 109(b), P.L. 93-69, attach an explanation.*

Lines 11 Through 14. Tier I Taxes and Tier I Medicare Taxes on Sick Pay

Show the amounts of sick pay payments during the year subject to Tier I taxes and Tier I Medicare taxes. If you are a railroad employer paying your employees sick pay or a third-party payer who did not notify the employer of the payments (thereby subject to the employee and employer portions of the tax), make entries on lines 11 through 14. If you are subject to only the employer or employee portion, complete only the applicable line. Multiply by the appropriate rate and enter the result on the applicable line.

Line 16. Adjustments to Taxes Based on Compensation

Use line 16 to show (a) correction of underpayments or overpayments of tax

reported on an earlier return, (b) credits for overpayments of penalty or interest paid on tax for earlier periods, and (c) reports of fractions of cents added or dropped in deducting employee tax from compensation paid for the period. Do not include the 1993 overpayment that is applied to this year's return (this is included on line 19). If you are reporting both an addition and a deduction, enter only the difference between the two on line 16. You cannot claim any excess credit from line 3 here.

Except for adjustments for fractions of cents, amounts entered on line 16 must be explained by a statement. Please attach a full sheet of paper that shows at the top the name, employer identification number, calendar year of the return, and "Form CT-1." Include in the statement the following information:

- a. An explanation of the adjustment which the entry is intended to correct.
- b. The particular return period(s) to which the adjustment relates.
- c. The amount of the adjustment chargeable to each period.
- d. The name and account number of any employee from whom employee tax was undercollected or overcollected.
- e. The manner in which you and the employee have settled any undercollection or overcollection of employee tax.

The statement must be made in duplicate and attached to the Original and Duplicate Copy of your return.

Reminder: Any amounts paid during the current reporting year adjusting prior year compensation (reported to the Railroad Retirement Board on **Form BA-4**, Report of Creditable Adjustments) are taxable at the current year tax rates. Use the current year rates to compute the additional tax due. Be sure to attach an explanation showing the prior year(s) to which the adjustment relates, the amount of compensation subject to Tier I and Tier II taxes, and the respective tax rates.

Fractional Parts of Cents.—If there is a difference between the total amount of employee tax included on lines 8, 9, 10, 13,

and 14 and the total amounts actually deducted from employees due to fractions of cents added or dropped in collecting employee tax, report this difference on line 16 as a deduction or an addition. If this is the only entry you need to make on line 16, you do not need to attach an explanation of the adjustment to your return. Just write "Fractions only" in the margin of the form.

Line 17. Adjusted Total of Employer and Employee Railroad Retirement Taxes Based on Compensation

Subtract line 16 from line 15 if you are decreasing tax previously reported. Add line 16 to line 15 if you are reporting additional tax.

Line 19. Total Railroad Retirement Taxes Deposited

Show the total amounts of railroad retirement taxes you deposited using Form 8109 or wire transfer. Also include the overpayment applied from the 1993 return.

Line 20. Balance Due

Subtract line 19 from line 18. You should only have a balance due with the return if you have less than \$500 of tax for the entire year and/or a shortfall amount for monthly depositors.

Note: *The balance due may be \$500 or more if you are a monthly depositor and are making payments under the **Accuracy of Deposits (98% Rule)**, discussed earlier.*

Include on your check or money order your employer identification number, "Form CT-1," and the year to which the payment applies. This will help ensure proper crediting to your account.

Line 21. Overpayment

If you deposited more than the correct amount of taxes for the year, you can have the overpayment refunded or applied to your next year's railroad retirement tax.

Signature

Be sure to sign the Original and the Duplicate Copy of the return.

