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Directive 93-1: Tier I and Tier II Railroad Retirement Benefits

ISSUE: Are Tier I and Tier II railroad employee retirement benefits subject to the Massachusetts personal income tax?

DIRECTIVE: Neither Tier I nor Tier II railroad employee retirement benefits are subject to the Massachusetts personal income tax.

DISCUSSION OF LAW:

The basic railroad retirement benefit available to retired railroad employees consists of two "tiers." Tier I benefits are equivalent to social security benefits and are similarly financed with an equal payroll tax paid by both employee and employer.¹ Tier II benefits are amounts in addition to the Tier I benefits and are financed through a payroll tax, the majority of which is paid by the employer.²

Massachusetts gross income is federal gross income with certain modifications. G.L. c. 62, § 2(a). Taxpayers whose gross income exceeds a federal limit must include a portion of their Tier I railroad retirement benefits in their federal gross income. I.R.C. § 86. However, Massachusetts allows a deduction from federal gross income in determining Massachusetts gross income for Tier I railroad retirement benefits that are included in federal gross income under I.R.C. § 86. G.L. c. 62, § 2(a)(2)(H) (under I.R.C. § 86, the term "social security benefits" includes Tier I railroad retirement benefits).

Starting in 1984, any benefit provided under the Railroad Retirement Act of 1974 (other than a Tier I railroad retirement benefit) became subject to federal income taxation under I.R.C. § 72(r). However, these Tier II railroad benefits are exempt from state taxation under federal law. 45 U.S.C. § 231m.

/s/Mitchell Adams
 Mitchell Adams
 Commissioner of Revenue

DOR-D 93-1

February 2, 1993

Footnotes:

1H.R. REP. No. 98-30 Part I, 98th Cong., 1st Sess., reprinted in 1983 U.S. Code Cong. & Admin. News 729, 733-734.
 2Id.

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