



OFFICE OF THE CHIEF COUNSEL

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The Honorable Earl L. Carter
Member, U.S. House of Representatives
6602 Abercorn Street, Suite 105-B
Savannah, GA 31405

Attention:

Dear Representative Carter:

I am responding to your inquiry dated April 18, 2016, on behalf of your constituent, . wrote about the taxation of tier 1 railroad retirement benefits that he receives.

Before 1983, social security benefits and tier 1 railroad retirement benefits were not taxed. In 1983, Congress provided for the taxation of social security benefits and tier 1 railroad retirement benefits as part of legislation (the Social Security Amendments of 1983, Public Law 98-21) to provide for long-term financial support of the social security system. Tier 1 railroad retirement benefits are included in the definition of social security benefits for purposes of this taxation.

Subject to certain limitations, this provision taxed social security benefits above a certain base amount up to a maximum of one-half of the taxpayer's total social security benefits. The income taxes paid on social security benefits under the 1983 Amendments are, in effect, credited to the social security trust fund, which also funds tier 1 railroad retirement benefits.

In the Omnibus Budget Reconciliation Act of 1993, Public Law 103-66, Congress added a second level of taxation on social security benefits, including tier 1 railroad retirement benefits. This law provides that up to 85 percent of social security benefits are taxed for taxpayers subject to certain limitations. In committee reports on this legislation, Congress indicated that social security benefits are like the benefits under other retirement systems. Therefore, the taxation of social security benefits should conform more closely to the taxation of these other retirement payments.

Under current law, the taxable portion of social security benefits and tier 1 railroad retirement benefits depends on the benefit amount, the amount of other income, and the filing status (section 86 of the Internal Revenue Code). Above certain income levels, up to 85 percent of the benefits received are includible in gross income.

I hope this information is helpful. If you have any questions, please contact
or me at .

Sincerely,

Victoria Judson
Associate Chief Counsel
(Tax Exempt and Government Entities)