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Eighth Circuit: No RRTA tax on stock payments, union contract ratification payments

The U.S. Court of Appeals for the Eighth Circuit today found that a railroad that paid employees in stock or that made “ratification payments” to union-member employees was not required to pay taxes on these amounts under the Railroad Retirement Tax Act (RRTA).

The Eighth Circuit reversed and remanded a federal district court’s grant of summary judgment for the government in the railroad’s RRTA refund action for about \$75 million.

The case is: *Union Pacific Railroad Co. v. United States*, No. 16-3574 (8th Cir. August 1, 2017). Read the Eighth Circuit’s [decision](#) [PDF 230 KB]

Background

The railroad paid employees in company stock in addition to a monetary salary. The railroad paid RRTA taxes on the stock payments.

The railroad also paid RRTA taxes when it made “ratification payments” (that is, payments to employees when their unions ratified collective bargaining agreements) that were intended to encourage unions to ratify the collective bargaining agreements. These payments were made to recipients who were employed by the railroad on a certain date and the amount paid was tied to the number of hours that the employee had worked in the previous year.

After paying the RRTA taxes, the railroad filed for a refund of these taxes on the grounds that the RRTA did not require these payments. Eventually, the railroad filed a refund action in federal district court, which granted the government’s motion for summary judgment.

Eighth Circuit

The Eighth Circuit today reversed and remanded, finding that the RRTA does not require payment of RRTA taxes on remuneration in stock.

The appeals court contrasted the RRTA to FICA taxation. As explained in today's decision, the RRTA tax is based on an employee's "compensation" defined as "any form of money remuneration paid to an individual for services rendered as an employee" whereas the court noted that FICA levies a tax on an employee's "wages" defined as "all remuneration for employment, including the cash value of all remuneration (including benefits) paid in any medium other than cash." The Eighth Circuit found FICA "sweeps more broadly than the RRTA."

In concluding that the RRTA does not require payment of RRTA taxes on remuneration in stock, the Eighth Circuit stated that it owed "no deference to the IRS's regulation defining the RRTA's 'compensation' and the FICA's 'wages' identically...."

The appeals court also found that the ratification payments with respect to the union agreements were not made to employees for services rendered—the railroad did not exercise control over whether a union ratified a collective bargaining agreement. The railroad claimed that no tax was due under the RRTA on these amounts because these payments were not made "for services rendered" by the employee.

The Eighth Circuit disagreed with the district court's approach of "transplanting" the FICA definition into the RRTA, given that this disregarded the RRTA's focus on the authority and control that an employer exercises over an employee in determining whether the employee is performing a service. Instead, the appeals court concluded that the ratification payments were not made to employees for services rendered.

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