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U.S. Supreme Court: Employee stock options not taxable "compensation" under RRTA

The U.S. Supreme Court today issued a decision (five to four) holding that employee stock options are not taxable "compensation" under the Railroad Retirement Tax Act (RRTA) because they are not "money remuneration."

The case is: *Wisconsin Central Ltd. v. United States,* No. 17-530 (S. Ct. June 21, 2018). Read the **Supreme Court's decision** [PDF 134 KB] that includes a dissenting opinion.

The Supreme Court's decision reverses the U.S. Court of Appeals for the Seventh Circuit.

Summary

This case concerns the definition of taxable "compensation" under the RRTA.

Some railroads granted stock options to employees to purchase shares of stock for a price equal to its value on the day the option was granted. The government asserted that the railroad employee's gain upon exercise of these stock options satisfied the definition of taxable compensation under the RRTA. It was asserted that such stock options could be easily converted into money and thus qualified as "money remuneration."

The railroads and their employees countered that the stock options were not money remuneration and thus were not taxable.

The Court majority agreed with the railroads. In reaching its decision, the Court looked to the enactment of the RRTA in 1937 and noted that stock options did not fall within the definition of money. The Court further noted that shortly after enactment of the RRTA, the predecessor of the IRS (the Bureau of Internal Revenue) issued a regulation explaining that the RRTA imposed tax on “all remuneration in money, or in something which may be used in lieu of money (scrip and merchandise orders, for example).”

The Supreme Court concluded based on these “textual and structural clues” that it was “clear enough that the term ‘money’ unambiguously excludes ‘stock.’” As a result, the stock acquired through the exercise of such stock options was not taxable compensation under the RRTA.

Direct comments, including requests for subscriptions, to Washington National Tax. For more information, contact KPMG’s Federal Tax Legislative and Regulatory Services Group at + 1 202.533.4366, 1801 K Street NW, Washington, DC 20006-1301.