

MEMORANDUM

June 2, 2003

TO: Payroll Processors

FROM: Sue Elliott

RE: Student FICA Exemption/FICA Compliance Test and Your Responsibility

Due to the fact that it is not possible to systematically confirm registration prior to the first payment of wages in the payroll system, and in order to avoid inappropriate FICA taxation of a student, effective PP25, 6/1/03-6/14/03, graduate students, hourly graduate students and hourly undergraduate students (anyone with title code student) who were FICA taxable have been made FICA EXEMPT. All those who were FICA exempt remained FICA exempt. The automated student FICA compliance test will not be used to change FICA status during summer sessions I or II (PP26 through PP03). Effective PP04 all graduate assistants and student titled employees will be made FICA exempt for the fall semester.

EACH DEPARTMENT IS RESPONSIBLE FOR CONFIRMING FICA EXEMPT STATUS THROUGHOUT THE SUMMER (PP26-03). PHR should be changed to reflect the correct FICA tax status after confirming with the student that they are NOT registered at least ½ time during each summer session. The student should certify in writing to the department of hire, that they are/have registered for summer session I/II and this certification should include the number of credits/units per session.

As many of you know, in 1998 the IRS changed the student FICA guidelines to adopt a “half-time enrollment” standard and eliminate the maximum hour work requirement. The half-time rule applies to both undergraduate and graduate students. To qualify for the exemption the student employee must be employed by the institution where they are enrolled (or in our case at one of the USM institutions).

Services performed by a qualifying student during school breaks of more than five weeks, including summer breaks of more than five weeks, are not eligible for the FICA exemption. Services of a student performed during breaks of five weeks or less are eligible for the exemption provided the student qualifies on the last day of classes preceding the break and is eligible to enroll in classes for the first academic period following the break. **The FICA exemption does not apply to high school students, postdoctoral students, medical residents or medical interns. (High school students should not be put on payroll in the title student but rather as a general assistant.)**

The student FICA rule applies to U.S. citizen and foreign national individuals alike. However, foreign national individuals in the United States in F-1, J-1, M-1 or Q-1 immigration status can qualify for exemption from social security and medicare taxes under section 3121(b)(19) of the Code provided that they 1) are nonresident aliens for federal tax purposes under the substantial presence test and 2) the services performed carry out the purpose of that immigration status.

Should you have any questions do not hesitate to contact Payroll Services at x55665.