Policy Title: Student FICA Tax Exemption
Policy Number: STUD-338
Revision Date: May 2016
Policies Superseded: None
Policy Management Area(s): Finance and Administration

SUMMARY:

This document provides guidelines based on the Internal Revenue Code, and IRS regulations and directives, for determining whether a student’s service in the employ of Coastal Carolina University qualifies for an exemption from FICA taxes imposed on wages.

POLICY:

I. Social Security and Medicare taxes are the two components that make up the Federal Insurance Contributions Act (FICA) tax category. They do not apply to services performed by students employed by a school, college or university where the student is pursuing a course of study. Whether employees are students for this purpose is determined by examining the individual’s employment relationship with the college to determine if employment or education is predominant in the relationship. If the employee is enrolled and regularly attending classes at the college in pursuit of an educational credential as his/her primary purpose for being there, FICA taxes will not apply to compensation. (Note: The exemption is not applicable to employees who are taking classes at another institution.)

II. The University will make student FICA determinations based on Revenue Procedure 2005-11 safe harbor guidelines, as discussed in the next section. Student employees who meet these guidelines will be treated as exempt from FICA taxes, while those student employees who do not meet these guidelines will be subject to FICA taxes on their wages.

III. CRITERIA FOR STUDENT FICA TAX EXEMPTION PER IRS SAFE HARBOR

A. General Standards: Under Revenue Procedure 2005-11, safe harbor rules, a wage payment made by the college to an individual will qualify for the student FICA exemption if the individual:
   1. is at least a half-time undergraduate student or at least a half-time graduate or professional student,
   2. is not a full-time employee of the college,
   3. is not a “professional employee” and
4. is not a career employee eligible to receive certain employment benefits or participate in certain employment benefit plans (e.g., vacation, sick leave, 403(b), etc.)

B. Student enrollment status: A student employee must be enrolled and regularly attending classes at the school, college or university at which the student-employee is employed.

C. A half-time undergraduate, graduate or professional student is deemed to be enrolled if he/she is carrying a half-time academic load as determined by the University Registrar. The per-semester course loads that qualify the student for the FICA tax exemption under safe harbor rules are as follows:
   1. Fall/Spring Semesters:
      a. Undergraduates: 6 or more credit hours
      b. Graduate Students: 6 or more credit hours
   2. Summer Semesters:
      a. Undergraduates: 3 or more credit hours
      b. Graduate Students: 3 or more credit hours

D. Traditional classroom activities, however, are not the sole means of satisfying this requirement. For example, research activities under the supervision of a faculty advisor to complete the requirements for a Ph.D. degree may constitute a “class” under the regulations. Therefore, students enrolled in master’s thesis research and preparation, or dissertation research and preparation, will qualify for the student FICA exemption.

E. Full-time employees: Regardless of the University’s classification, any employee whose normal work schedule is 37.5-40.0 hours or more per week will be treated as a full-time employee.

F. Professional employees: Under Revenue Procedure 2005-11, a student who is a professional employee does not qualify for safe harbor protections. While graduate assistants and research project assistants may qualify as professional employees under this standard, and thereby not meet the Revenue Procedure 2005-11 safe harbor test, the University will treat such student employees as eligible for the student FICA exemption based on the facts and circumstances, provided that the person’s normal work schedule is not 37.5 to 40.0 or more hours per week.

G. Employment benefits: A student employee does not qualify for the safe harbor rules under Revenue Procedure 2005-11 if the employee is eligible to receive one or more of the following benefits:
   1. vacation, paid holiday and paid sick leave benefits
   2. participation in an Internal Revenue Code §401(a), §403(b), or §457(a) retirement plan
   3. reduced tuition as an employee benefit (other than qualified tuition reductions for teaching assistants and research assistants under Internal Revenue Code section 117(d)(5))
4. benefits under Internal Revenue Code §79 (life insurance), §127 (qualified educational assistance), §129 (dependent care assistance program) or §137 (adoption assistance)

H. While some University students are eligible to receive one or more of the benefits named above, such student employees will, nevertheless, be treated as eligible for the student FICA exemption by the University based on the facts and circumstances, provided the students’ normal work schedule is not 37.5 to 40.0 or more hours per week.

I. Graduating students: A student who is less than half-time will still meet the safe harbor guidelines if the student is graduating. That is, an individual who is in the last semester or term of a course of study and is enrolled for the number of credit hours needed to complete the degree requirements will still be regarded as at least a half-time student, even if the student is enrolled in less than half the number of credit hours required of full-time students.

J. School breaks: An individual working for the University during the summer or during other school breaks of more than five weeks, but who does not have the status of a student during this period as defined in this policy, is not eligible for the student FICA exemption on wages paid during the period. The student FICA tax exemption does apply to school breaks of five weeks or less (for example, winter and spring breaks) provided the individual is a continuing student. In order to be eligible for the FICA tax exemption during school breaks of five weeks or less, the individual must qualify for the FICA tax exemption on the last day of the semester or term preceding the break and be eligible to enroll for classes in the first semester or term following the break.

K. FICA Status of Foreign Nationals: Students, researchers or scholars temporarily present in the U.S. on F1, J1, M1 or Q1/Q2 visas are usually exempt from FICA taxes as long as they are considered “nonresident aliens” for income tax purposes. Other rules regarding the number of calendar years a visa holder is considered to be a nonresident alien pertain to each visa and can impact whether the student FICA exemption is appropriate.

IV. FREQUENTLY ASKED QUESTIONS REGARDING FICA TAXES

A. What is FICA?

FICA is the abbreviation for the Federal Insurance Contributions Act, which regulates taxes that are withheld from employee paychecks and matched by employers. The two components that make up the FICA tax category are the social security tax and the Medicare tax.

B. What is the social security tax?
Social security taxes are the means by which social security is funded. If an employee is taxed, 6.2 percent of the gross wages, along with an equal amount from the University, will be paid into social security and be utilized in determining your benefit upon retirement. There are maximum limits, adjusted annually, for which a person’s wages are subject to this FICA tax.

C. What is the Medicare tax?

Medicare taxes are the means by which Medicare is funded. If an employee is taxed, 1.45 percent of the gross wages, along with an equal amount from the University, will be paid into Medicare. There is no annual limitation on wages subject to Medicare taxes.

D. Are students exempt from the FICA taxes?

The IRS provides an exemption from FICA for student-workers paid by the colleges and universities in which they are enrolled. There are regulations that define who is a “student,” and therefore, who is eligible for exemption from these taxes. (See Section III of this policy.)

E. How many credits do I have to take to be considered a student under the student FICA exemption?

IRS rules require that students be “enrolled and regularly attending classes.” The number of credits you need to be taking at the University is determined by whether you are an undergraduate or graduate student, and the academic semester in which you are enrolled. The following chart shows the number of credits that you must take to be considered a student for purposes of the exemption. Determination of student status is made each semester and that determination is monitored for each payroll.
## FICA Chart of Minimum Credit Hours and Maximum Hours Worked

<table>
<thead>
<tr>
<th>STUDENT STATUS</th>
<th>Minimum Credits Per Semester (Note 1)</th>
<th>Maximum Weekly Hours of Work to Remain Exempt (Note 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate</td>
<td>Fall/Spring 6</td>
<td>Summer (Note 2) 3</td>
</tr>
<tr>
<td>Graduate School Student</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Professional School Student</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Advanced Masters Candidate Working on Thesis or Dissertation</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ph.D. Candidate Working on Thesis or Dissertation</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes:
1. A student in his/her final semester (who has applied for graduation) and is enrolled in the number of hours needed to complete his/her graduation requirements, is still eligible for the FICA exemption, even if he/she is taking fewer credit hours than shown here.
2. Summer term is defined as all sessions within the summer term.
3. The maximum hours worked is based on the aggregate hours across all payrolls (SA, RA, GA, and CWS). Setting the limit at 20 is consistent with “in good academic standing” requirements and also provides sufficient cushion versus a 37.5 to 40 hour workweek that would make a student become an “employee” for FICA exemption purposes.

F. How many hours can I work and still maintain my student FICA exemption?

Undergraduate students, meeting the six-credit-hour requirement in the above chart, may work no more than 20 hours per week in order to maintain their eligibility for the student FICA exemption. Graduate students may not work more than 20 hours per week and must be enrolled in the credit hours specified in the above chart in order to maintain their student FICA exemption.

G. Will a student always pay FICA taxes if they exceed 20 working hours during a week?

If a student occasionally exceeds 20 hours, the tax exemption will remain in effect. However, if the student exceeds 20 hours four times during the semester (excluding breaks), the FICA exemption will be removed, and the student will be taxed.