Student Social Security and Medicare (FICA) Tax Withholding Exemption

Revised: 9/12
FSS/PPS No. 03.07.01
Issue No. 5
Reviewer: Director of Payroll and Tax Compliance
Effective Date: 07/01/2000 (E3Y)
Review Date: 07/15

01. POLICY STATEMENTS

01.01 FSS/PPS establishes policy guidelines for the implementation of IRS Revenue Procedure 98-16 which exempts qualified student employees from withholding of Social Security and Medicare (FICA) taxes on wages paid.

01.02 The Omnibus Appropriations Bill, H.R. 4328 passed by Congress in 1999 included a provision which permits states to exercise the “student exception” option provided in federal law.

01.03 The State of Texas filed Modification No. 1496 to the Texas State Social Security Agreement (Section 218 Agreement) to exempt the services of qualified student employees at Texas public colleges and universities from FICA taxes, effective for any service performed after June 30, 2000 if they meet the guidelines outlined in Internal Revenue Code Section 3121(b)(10).

01.04 Due to the change in this agreement and in accordance with federal tax law, Texas State University-San Marcos shall grant an exemption from FICA tax withholding on wages paid to a student during an academic semester or summer session in which that student is enrolled and is regularly attending classes at the University.

02. DEFINITIONS

02.01 Qualified Student Employees – A student is considered to be qualified for this exemption, if enrolled and is regularly attending classes at least half-time, i.e. fifty percent (50%), of the minimum number of hours required for full-time enrollment certification purposes. In order to be considered half-time, the student must meet one of the following exemption criteria:

a.) Undergraduate Student – The student is enrolled at Texas State for six (6) credit hours or more for the Fall or Spring semester, or the student is enrolled for three (3) credit hours or more for a Summer semester or

b.) Graduate Student – The student is enrolled at Texas State for at least five (5) credit hours for the Fall or Spring semester, or the student is enrolled three (3) credit hours for a Summer semester or
c.) Candidate for Graduation – The student is enrolled at Texas State for any number of credit hours and is considered a candidate for graduation in the student enrollment files.

02.02 Career Employees who are also students are not eligible even if all other criteria are met. A Career employee is defined as one who is eligible to participate in a retirement program and/or does not require student status as a condition of employment.

02.03 Census Date is the date on which “student status” is determined. Since the FICA Exemption Report is run each time payroll is processed, the exemption will be granted if the student meets criteria described in Section 02.01 Definition for a “Qualified Student Employee”.

02.04 Enrollment Period is defined as the semester in which the student is enrolled and employed at the University.

03. PROCEDURES FOR GRANTING THE EXCLUSION

Student Status will be determined according to the following procedures:

03.01 General Eligibility – Each eligible student employee will have a historical record of enrollment activity. Each student’s record will be analyzed using the FICA Exemption program each time payroll is processed.

03.02 Prior Semester Exclusion is based on the student’s enrollment status during that previous semester. No action is necessary by the student or the department to accomplish this as it will be determined by the dates in the payment record.

03.03 Current Semester Exclusion is based on the enrollment status during that semester.

03.04 Work Requirement – If the standards of IRS Revenue Procedure 98-16 are met, the amount of earnings for services performed by the employee, the type of services performed by the employee, the place where the services are performed, and the number of hours worked by the employee are immaterial.

03.05 Semester Breaks - As defined in IRS Revenue Procedure 98-16, student employees who are enrolled and are regularly attending classes in a given academic semester/session will be afforded the exemption from FICA tax withholding for any brief period of time between the end of one semester/session and the start of the succeeding semester/session, if the students qualified for the exemption in the immediately preceding semester/session, as long as that period does not exceed thirty-five (35) calendar days.

Here is an example of when the student “would not be” FICA exempt: A student was working but was not enrolled during the summer session. This determination would apply regardless of whether the student was enrolled during the previous spring semester and expects to return to the university in the fall semester.
Here is an example of when the student “would be” FICA exempt: A student enrolled during the summer session would retain the exemption during the period between the summer session and the fall semester, as well as during the winter break, etc.

03.06 Benefit Replacement Pay (BRP) is not impacted by the exclusion because it is part of an employee’s base pay.

03.07 Refunds - Requests for refunds of Social Security/Medicare (FICA) taxes will be granted only with the approval of the Director of Payroll and Tax Compliance.

**04. MAJOR RESPONSIBILITIES ASSOCIATED WITH THIS PPS**

Major responsibilities for routine assignments associated with this PPS include the following:

<table>
<thead>
<tr>
<th>Positions</th>
<th>Section</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director, Payroll and Tax Compliance</td>
<td>Review</td>
<td>May (E3Y-00)</td>
</tr>
</tbody>
</table>

**05. CERTIFICATION OF STATEMENT**

This FSS/PPS has been approved by the following individuals in their official capacities, and represents FSS policy and procedure from the date of this document until superseded.

Director of Payroll and Tax Compliance, Reviewer

Associate Vice President for Financial Services, Reviewer

Vice President for Finance and Support Services

Approved: ______________________________
Reviewer

Approved: ______________________________
Reviewer

Approved: ______________________________
Vice President for Finance and Support Services