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1. Purpose Statement

The purpose of this procedure is to implement the provisions of the Social Security Act which provides exemption from FICA (Social Security and Medicare taxes on earned income) taxes to enrolled students who are also employed by the University of South Florida and whose employment is incidental to their pursuit of a degree. This exemption does not apply to career employees who may take courses or pursue a degree while employed by the university. The procedure will describe in detail the method in which the FICA Tax Exemption Procedure is applied and the process to apply the exemption.

2. Procedure Statement

The University of South Florida applies the Internal Revenue Service (IRS) guidelines in Revenue Procedure 2005-11. The guidelines set the standards used to determine whether student employees are eligible for the "student FICA Exemption." Background information on the final regulations and revenue procedure can be found in Section 3121(b)(10) of the Internal Revenue Code. (See FIND IT.)

The IRS interpretation as set forth in Revenue Procedure 2005-11 provides that a student employee will be exempt from FICA taxes if the student is enrolled at least half-time in accordance with the regulations issued by the Department of Education. Revenue Procedure 2005-11 also states that a full-time employee, as defined under the final regulations, is ineligible for the exemption. An employee whose normal work schedule is 40 hours a week is considered a full-time employee. In addition, as an employee's normal work schedule or actual hours worked approaches 40 hours per week, it is more likely that the service aspects of the employee's relationship with the employer will predominate over the educational aspects and that the employee will be ineligible for the student FICA exemption.

Students who are U.S. citizens or permanent residents in the appropriate job code will be exempt from FICA tax withholding if they meet the following requirements:

- a. S/he is appointed for 32 or less hours per week.
- b. S/he is enrolled at least half-time during the semester.

Graduate Students

For graduate students, the primary form of employment by the university is as a graduate assistant in research or teaching. A full-time academic load for a graduate assistant is:

- Fall Semester 9 credit hours
- Spring Semester 9 credit hours
- Summer Term A,B,C 9 credit hours (in one or any combination of the summer sessions)

Example:

For summer term, graduate students need to be enrolled for at least 5 hours in combination among the various summer sessions A, B and C. Registration must occur for the minimum number of credit hours by the beginning of Summer Term A and C, or by the beginning of the employment period, in order to be exempt.

Exceptions:

Doctoral students who have completed course work and passed their preliminary exams need to be enrolled for at least 1 credit hour (less than the half-time requirement) of dissertation or thesis credits to qualify for the exemption.

Undergraduate Students

For undergraduate students, full-time enrollment is as follows:

- Fall Semester: 12 credit hours
- Spring Semester: 12 credit hours
- Summer Term A,B,C: 12 credit hours (in one or any combination of the summer sessions)

Example:

For summer term, undergraduate students need to be enrolled for at least 6 hours in combination among the various summer sessions A, B and C. Registration must occur for the minimum number of credit hours by the beginning of Summer Term A and C, or by the beginning of the employment period, in order to be exempt.

Exceptions:

A student in the final term may be enrolled for fewer than the minimum required hours and meet the tax exemption requirements with certification of final-term status and approval by the academic dean.

Special Circumstances/Additional Guidelines to Consider

- *Non-resident aliens*
Student employees who are non-resident aliens and are J-1 or F-1 visa holders are exempt from FICA tax withholding based on their visa status and length of stay in the United States.
- *Academic breaks*
The half-time enrollment requirement and the work restriction will not be enforced during academic breaks of five weeks or less as long as the student is otherwise eligible for exception on the last day of classes preceding the break and is eligible to enroll in classes in the academic period following the break.
- *Exclusions for full-time employment*
Students with appointments aggregating greater than 0.80 FTE will be subject to FICA taxation. Departments are advised that students with aggregate appointments of 0.80 FTE or less should not be permitted to work more than 32 hours per week except in emergency or unforeseen situations.
- *Multiple appointments*
If an employee performs services in multiple appointments, the individual will be deemed a career employee with respect to all of the positions if the employee is a career employee in any one or more of the appointments; therefore, the individual would not qualify for an exemption.

If each of the multiple appointments qualifies for the FICA exemption, then the student employee would qualify for the exemption. If multiple appointments cause the student employee to have an aggregate FTE greater than 0.80, the FICA tax exemption will not be available for any of the appointments.

Departments are responsible for checking GEMS before hiring the student employee to determine if the student has existing appointments in the system that may cause the FTE to exceed 0.80 FTE. If this occurs, the student employee becomes subject to FICA taxes, will be automatically enrolled in the Temporary Employee Retirement Plan (TERP) and the departments will be charged for the corresponding Medicare tax matching expense.

- *Administration Guidelines*
When a student's enrollment hours or appointment hours change during an academic term, retroactive FICA tax charges or refunds will not be processed for that term.

University Payroll audits the student employment payroll on a bi-weekly basis to verify actual hours worked during a pay period. A payroll audit that results in a student employee whose actual time worked exceeds 0.80 FTE for two (2) or more consecutive pay periods will result in disqualification of the student from the FICA exemption for the remainder of the academic term.

- A career employee is categorized/defined as those individuals who are eligible for retirement and other benefits as part of their employment offer. This does not include Temporary employees.

3. Roles and Responsibilities

3.1 Employment Center Representatives

The Employment Center Representative is responsible for:

- 3.1.1 Ensuring the compensation portion of the employment relationship in the HRMS Database (GEMS) is initiated correctly.
- 3.1.2 Determining and inputting the correct FICA status for new student employees.

3.2 University Payroll

University Payroll is responsible for:

- 3.2.1 Maintaining the integrity of the employee's taxable salary information in the HRMS database (GEMS).
- 3.2.2 Auditing the student FICA exemption at the end of the drop-add and graduation application deadline to ensure that student employees meet the eligibility requirements.
- 3.2.3 Providing the updates/changes to the student job record to the Employment Center Representative for entry.

3.3 Hiring Departments

The Hiring Department is responsible for:

- 3.3.1 Communicating the information to student employees in their unit so they will understand the impact of the guidelines on their wages.
- 3.3.2 Understanding the information contained in the procedure and understanding the implication of the guidelines for budget planning requirements.

3.4 Office of the Registrar

The Office of the Registrar is responsible for:

- 3.4.1 Maintaining the accessibility of the Registrar’s web reporting system for report generation by University Payroll.

4. Critical Success Factors and Performance Measures

Critical Success Factors: *Specific factors that will be critical to the success of a process or task where if the objectives associated with the factors are not achieved, then the process will fail or have an adverse impact, e.g., any downstream processes.*

Performance Measures: *Performance measures provide quantitative and qualitative measures so you can see how well the Division of Human Resources is meeting its goals. A performance measure is composed of a goal or objective, e.g., the task, and a unit of measure (how much or by when).*

Issues/Risks/Assumptions: *Things that:*

- Can influence the input, process and outcome of a procedure.
- Adversely impact additional time spent on performing a task.
- Are assumed to be operational or in place for this process to work, e.g., the recruitment process has been completed successfully prior to the appointment process.

4.1 Critical Success Factors:

- 4.1.1 The Hiring Department needs to take into account and share this information with student employees in their unit so they will understand the impact of the guidelines on their wages.
- 4.1.2 University Payroll must agree to minimize exceptions to the procedure guidelines to apply the procedure consistently.

4.2 Issues /Risks/Assumptions

| Rank | Description |
|--------|--|
| High | |
| Medium | Issue: Residents in the medical professions. The question has risen where employees performing services in the nature of on-the-job training are students and thus not subject to FICA taxes. Federal District Court in Florida held that medical resides are subject to FICA Tax. This case is currently on appeal. The University of Minnesota claimed that medical residents working in a hospital setting can qualify for the student FICA exemption and won in District Court and Eight Circuit appellate courts. ‘ |

| | |
|-----|--|
| | <p>Many residents and universities that employ medical residents have filed claims asking for refunds of FICA paid.</p> <p>What is USF's exposure or potential gain with current medical resident population? NONE. We need to be conservative and tax medical residents. If the IRS changes the rules in the future, then the medical residents themselves can file directly with the IRS for a refund.</p> |
| Low | |

5. Summary of Business Process

5.1 Entering/Updating the information in GEMS

This is the process followed by the Employment Center to enter/update the FICA Tax Exemption of the student employee.

- The Employment Center Representative reviews the Appointment Status Form (ASF) form to verify the Job Code is eligible for the FICA exemption.
- The Employment Center reviews the University Payroll – FICA Guidelines or Decision Tree to determine if the student is eligible for the FICA exemption.

If the student qualifies or becomes ineligible for the exemption, the Employment Center Representative must update the FICA Status Field in the Payroll Panel. The FICA Status Field in GEMS is located at [Workforce Administration>Job Information>Job Data: Payroll]. The FICA status must be updated for **each** appointment and for **each** future dated row.

5.2 Verifying/Updating the information in GEMS

This is the process followed by University Payroll to verify/update the FICA Tax Exemption of the student employee.

- After the drop/add registration period according to the USF Academic Calendar, University Payroll will:
 - Merge data from GEMS payroll production and OASIS student registration data (run the "Payroll: FICA Student Listing" report from the Registrar's web reporting system).
 - Review matches for all student employees and active students to determine if student employees meet the requirements outlined in the University Payroll – FICA Guidelines or Decision Tree.
- Two (2) weeks after the deadline to apply for graduation according to the USF Academic Calendar, University Payroll will:
 - Merge data from GEMS payroll production and OASIS student registration data (run the "Payroll: FICA Student Listing" report from the Registrar's web reporting system).
 - Query the output for students who meet the FICA exemption requirements.
 - Audit the query report for students who are in their final semester (applied for graduation) and are active students even though they do not meet the minimum credit hour requirements.

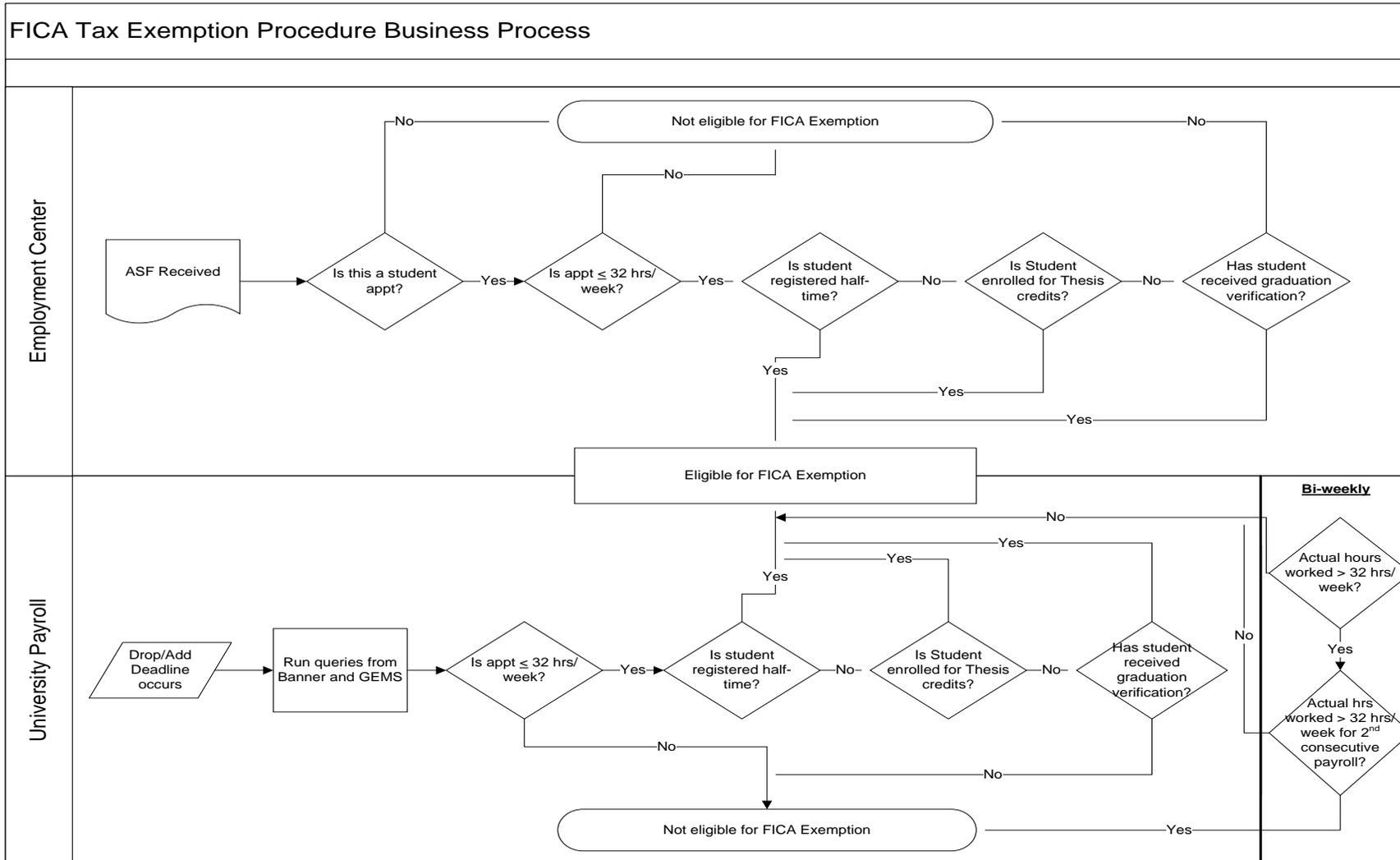
For students whose eligibility status needs to be updated in GEMS, the Payroll Tax Administrator will provide a report to the Employment Center Representative to update the FICA Status field in the Payroll panel. The FICA Status field in GEMS is located at [Workforce Administration>Job Information>Job Data: Payroll]. The FICA status must be changed for **each** appointment and for **each** future dated row.

If changes are made after the payroll mini-certifications are created, then the Payroll Tax Administrator must override the FICA status in the Payline page (North American Payroll > Payroll Processing > Update Paysheets > By Payline).

University Payroll runs a bi-weekly query on Friday of the payroll processing week as part of their audit procedure to update FICA status for new student appointments. For students whose eligibility status needs to be updated, the Payroll representative must send the request to the Employment Center to update the FICA Status field in the Payroll panel of the employee so that the correct information will automatically process for future production. The FICA Status field in GEMS is located at [Workforce Administration>Job Information>Job Data: Payroll]. The FICA status must be changed for **each** appointment and for **each** future dated row.

6. Work Flow Diagram

6.1 FICA Tax Exempt Process



7. Process Documentation

7.1 FICA Tax Exemption Procedure Process Documentation

- 7.1.1 This procedure and business process eliminates the need for the Employment Center to produce their initial reports for students at the beginning of each academic term. This is a duplication of effort.
- 7.1.2 This procedure reduces the employment hours eligibility from 40 hours per week to less than or equal to 32 hours per week
- 7.1.3 Concept Position Paper: Metrics regarding the volume of students at SUS, peer and aspirational universities was not explored in further detail. The number of students that require changes to their job records is not significant (4%).

8. Appendices

8.1 Definitions

| | |
|-------------------------|--|
| Career Employee | Generally characterized as those employees who are eligible for retirement benefits and other benefits, and may take courses or pursue a degree while employed by the university; an employee who receives certain benefits (group life insurance, vacation, sick leave, and retirement plan) will usually not qualify for the student FICA exemption. |
| FICA | The Federal Insurance Contributions Act. This act mandates that an employer withhold a set percentage of an employee's salary each pay period. FICA also requires that the employer match the employee's amount and contribute the money to a government account known as the Social Security Trust Fund. This fund provides retirement income, as well as disability insurance, Medicare, and benefits for survivors. |
| Student employee | Students employed by the University of South Florida and whose employment is <i>incidental</i> to their pursuit of a degree. They are characterized by specific job codes. |

8.2 Authority

The establishment of the FICA Tax Exemption Procedure is necessary for the business operations of the University of South Florida. This responsibility is delegated to the Division of Human Resources, University Payroll and HR Operations departments to communicate and distribute the information. It is the responsibility of HR Operations to ensure that the FICA Tax Exemption Procedure is formally approved, maintained in a central location that is accessible to all interested parties; kept current with the framework of an organized system/method for revision, and distributed to all relevant operating units in a timely manner.

8.3 Interfaces

The following information will be supplied to University Payroll through the report interface: student name, Social Security Number (Key ID), date of birth, employee identification number (campus option), Student Identification Number, student type (e.g., undergraduate, graduate, etc.), and number of units.

Information supplied from the FICA Student Listing report will be matched against the employee's information in GEMS. The match will be based on the student employee's Social Security Number.

The employee's Job Data record will have to be updated to reflect any missing or incorrect data supplied from the OASIS interface. An exception report will be produced identifying students with invalid data on the SIS interface file. To prevent errors from recurring, procedures should be established so that SIS data can be corrected, as needed. University Payroll makes the decision on the FICA status eligibility to forward the change/update to the Employment Center to enter into the Job Data record.

In accordance with Revenue Procedure 2005-11, the interface should be run at the end of the drop/add period in order to determine if the student is carrying the appropriate number of credit hours for the term.

In accordance with USF operating procedures, the interface should be also be run at the end of the graduation application deadline in order to determine if the student is carrying the appropriate number of credit hours for the term.

If a student drops or adds a class after the drop/add deadline, the change in the student employee's number of units will not be reflected in PPS until the next interface file is run, unless the individual reports the change to his department and the DPA updates the student's EDB record.

8.4 Related Documents

8.4.1 University Payroll – FICA GUIDELINES: S:\payroll\tax area\FICA Students

8.4.2 Payroll FICA Student Listing Report: Office of the Registrar's Web Reporting System

8.4.3 University Payroll – FICA GUIDELINES: Frequently Asked Questions
S:\payroll\tax area\FICA FAQs

8.4.4 Appointment Status Form: GEMS Access Required

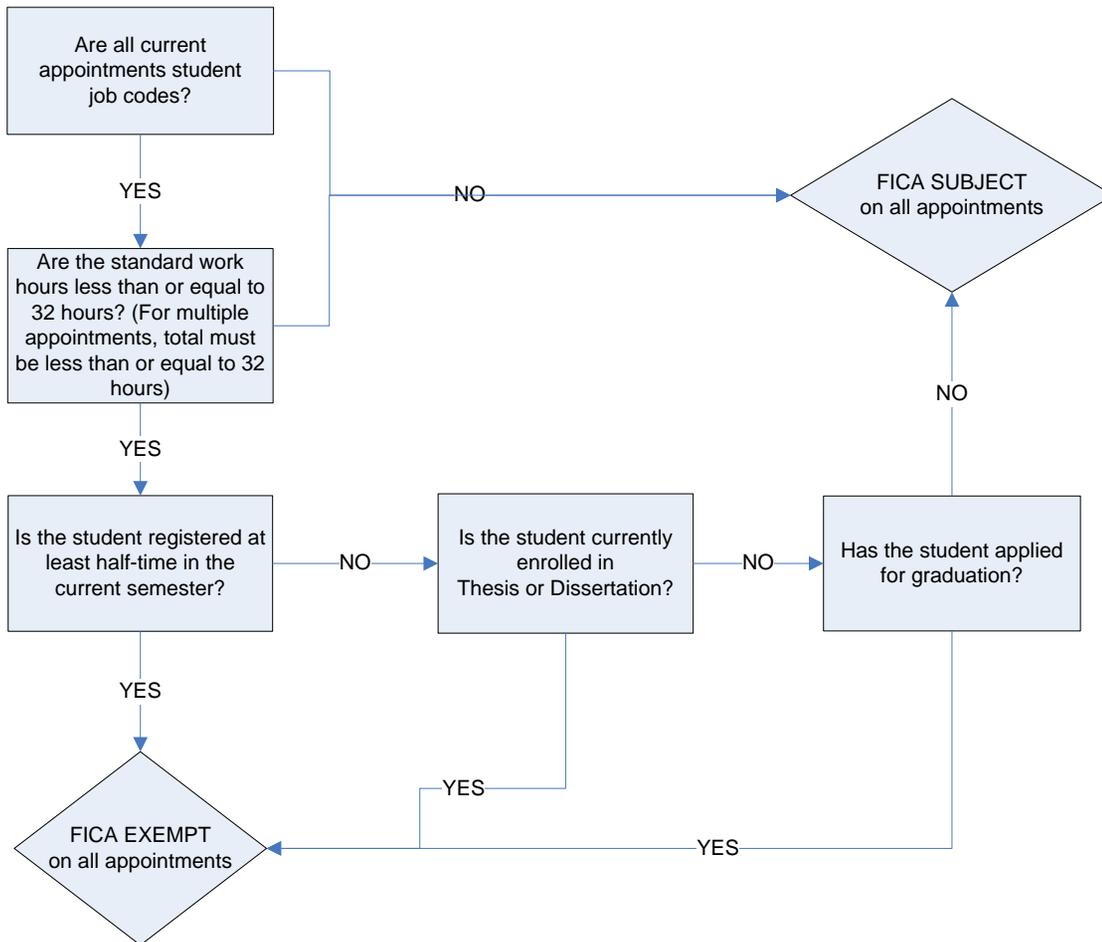
8.4.5 IRS Form 843: Claim for Refund & Request for Abatement (See FIND IT)

8.5 Job Aid

| Step | Trigger | Task | Who Completes | Schedule/ Timeline | Results & Standards | Exceptions |
|------|--|---|--------------------|-------------------------------------|--|---|
| 1 | Determining FICA eligibility for a new student employee | Determine if the student in the correct job code | Employment Center | Same day | Student must be in the appropriate Job Code to qualify for the exemption | None |
| 2 | Step 1 | Determine if the student works ≤ 32 hours per week | Employment Center | Same day | Even multiple appointments must be ≤ 32 hours per week | |
| 3 | Step 2 | Determine if the student meets the credit requirements | Employment Center | Same day | Undergrad students – 6 credit hours Graduate students – 5 credits | Students in the last academic semester; Graduate students with thesis/ dissertation credits only |
| 4 | Exceptions in Step 3 | Determine if the student has applied for taking graduation/thesis credits | University Payroll | 5-10 days after the semester begins | Must be graduate students | Students in the last academic semester |
| 5 | Graduation application deadline occurs | Determine if the student has applied for graduation | University Payroll | 2 weeks after the semester begins | Students who have applied for graduation | Written approval from the Dean/VP designee for the college |
| | Drop/Add deadline (for academic term) for courses occurs | Repeat steps 1-5 | University Payroll | | | |
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8.6 Decision Tree: Student FICA Exemption

Decision Tree: Student FICA Exemption



Student Job Codes: 9190, 9181, 9182, 9183, 9184, 9185, 9550

USF Definition of “half-time” registration:

- Fall & Spring Academic Term
 Undergraduate: 6 credit hours
 Graduate: 5 credit hours
- Summer Sessions
 Undergraduate: 6 credit hours
 Graduate: 5 credit hours

(To be considered for the exemption, student must be enrolled by the beginning of the summer term or by the beginning of the employment period, if that is later than the beginning of the summer term.)

8.7 Resources and Contact Information

8.7.1 University Payroll - [Shelly Ford](#) – 813-974-7955

8.7.2 Employment Center - [Sandra Sheffield](#) – 813-974-5486

_____END OF PROCESS DOCUMENT_____

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