

## Revenue Procedures

### Rev. Proc. 98-16, 1998-5 IRB, IRC Sec(s). 3121

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#### **Federal Insurance Contributions Act – student exception.**

##### **Headnote:**

IRS issued guidance for determining whether student employed by certain public or private schools, colleges, or universities qualifies for FICA exception under Code Sec. 3121(b)(10) . Specifically, guidance addresses: standards applicable to career employees; standards applicable to undergraduate and graduate students; and, institutions of higher learning.

*Reference(s):* ¶ 31,115.01; Code Sec. 3121

##### **Full Text:**

#### **1. Purpose**

This revenue procedure sets forth generally applicable standards for determining whether service in the employ of certain public or private nonprofit schools, colleges, universities, or affiliated organizations described in section 509(a)(3) of the Internal Revenue Code (the Code) performed by a student qualifies for the exception from Federal Insurance Contributions Act (FICA) tax provided under section 3121(b)(10) of the Code (Student FICA exception). These standards are intended to provide objective and administrable guidelines for determining employment tax liability. The Student FICA exception standards were developed in response to requests for guidance by many public and private nonprofit institutions of higher education.

#### **2. Scope**

.01 Institutions of higher education typically distinguish between career employees and student employees. Sections 5 and 6 of this revenue procedure contain generally applicable standards for determining whether or not services performed by career employees and student employees are eligible for the Student FICA exception.

.02 The standards contained in this revenue procedure do not apply to employees who are postdoctoral students, postdoctoral fellows, medical residents, or medical interns because the services performed by these employees cannot be assumed to be incidental to and for the purpose of pursuing a course of study.

.03 The standards contained in this revenue procedure do not constitute the exclusive method for determining whether the Student FICA exception applies. Thus, for example, if the standard for qualifying for the exclusion described in section 6 of this revenue procedure is not met, whether or not service in the employ of a school, college, university, or affiliated organization described in section 509(a)(3) of the Code will qualify for the Student FICA exception will depend on consideration of all the facts and circumstances.

### **3. Background**

.01 Sections 3101 and 3111 of the Code impose social security and Medicare taxes (FICA taxes) on employees and employers, respectively, equal to a percentage of the wages received by an individual with respect to employment.

.02 Section 3121(a) of the Code defines “wages” for purposes of FICA taxes as all remuneration for employment, with certain exceptions. Section 3121(b) of the Code defines “employment” as services performed by an employee for an employer, with certain exceptions.

.03 Section 3121(b)(10) of the Code excepts from the definition of employment services performed in the employ of a school, college, or university (whether or not that organization is exempt from income tax), or an affiliated organization described in section 509(a)(3) of the Code, if the service is performed by a student who is enrolled and regularly attending classes at that school, college or university. Remuneration for services excluded from the definition of employment under section 3121(b)(10) of the Code is not subject to FICA taxes.

.04 Section 31.3121(b)(10)-2 of the Employment Tax Regulations provides that whether an employee has the status of a student is determined on the basis of the employee's relationship with the school, college, or university for which the services are being performed. An employee who performs services in the employ of a school, college, or university as an incident to and for the purpose of pursuing a course of study at the school, college, or university has the status of a student in the performance of those services. Employment that is not incident to and for the purpose of pursuing a course of study does not qualify for the exception. If the employee does perform services as an incident to and for the purpose of pursuing a course of study and, therefore, has the status of a student, the amount of remuneration for services performed by the employee, the type of services performed by the employee, and the place where the services are performed are immaterial for purposes of the Student FICA exception.

.05 Section 218 of the Social Security Act (the Act), 42 U.S.C. section 418, allows states to provide Social Security coverage for services performed by students for the public school the student is attending under agreements established with the Social Security Administration. If a state has exercised its option under section 218 of the Act to provide for coverage of student services, section 3121(b)(10) of the Code provides that those services will not qualify for the Student FICA exception.

### **4. Institutions of Higher Education**

.01 The standards contained in this revenue procedure apply to institutions of higher education. For purposes of this revenue procedure, the term “institution of higher education” includes any public or private nonprofit school, college, university, or affiliated organization described in section 509(a)(3) of the Code that meets the requirements set forth in Department of Education regulations at 34 C.F.R. section 600.4 (1997), as amended from time to time, and that is accredited or preaccredited by a nationally recognized accrediting agency as defined in the Department of Education regulations at 34 C.F.R. section 600.2 (1997).

.02 Services for other institutions may also be eligible for the Student FICA exception. Thus, for example, services performed by a student for a secondary school may be eligible for the Student FICA exception. Whether or not services for other institutions, such as secondary schools, qualify for the Student FICA exception is determined based on the facts and circumstances of each case.

## **5. Standards Applicable to Career Employees**

.01 Services performed by career employees are not eligible for the Student FICA exception under the standard in section 6 of this revenue procedure because their employment cannot generally be considered to be incident to and for the purpose of pursuing a course of study. However, a career employee may be eligible for the Student FICA exception, based on consideration of all the facts and circumstances.

.02 For purposes of this revenue procedure, the term “career employee” is defined as any individual performing services for an institution of higher education who –

- (1) is eligible to participate in any retirement plan described in section 401(a) of the Code that is established or maintained by the institution, or would be eligible to participate if age and service requirements were met;
- (2) is eligible to receive an allocation of employer contributions other than contributions described in section 402(g) of the Code under an arrangement described in section 403(b) of the Code, or would be eligible to receive such allocations if age and service requirements were met, or if contributions described in section 402(g) of the Code were made by the employee;
- (3) is eligible for reduced tuition (other than qualified tuition reduction under section 117(d)(5) of the Code provided to a teaching or research assistant who is a graduate student as described in section 7.03 of this revenue procedure) because of the individual's employment relationship with the institution; or
- (4) is classified by the institution of higher education as a career employee.

.03 If an individual performs services in multiple job positions, the individual will be deemed a career employee with respect to all of the positions if the individual is a career employee in any one or more of the job positions.

## **6. Standards Applicable to Undergraduate and Graduate Students**

.01 An individual who is a half-time undergraduate student or a half-time graduate or professional student and who is not a career employee will qualify for the Student FICA exception under this revenue procedure with respect to services performed at or for institutions of higher education in which they are enrolled or at affiliated organizations described in section 509(a)(3) of the Code. Services performed by a student for any other employer do not qualify for this exception.

.02 An individual is deemed to be a half-time undergraduate or half-time graduate or professional student if the individual is not a career employee and is an undergraduate or graduate student who is in the last semester, trimester, or quarter of a course of study requiring at least two semesters, trimesters, or quarters to complete and is enrolled in the number of credit or unit hours needed to complete the requirements for obtaining a degree, certificate, or other recognized educational credential offered by that institution of higher education even if enrolled in less than half the number required of full-time students.

.03 The determination of student status should be made at the end of the drop-add period and may be adjusted thereafter at the institution of higher education's option. The determination of student status for payroll periods ending before the end of the drop-add period may be based on the number of semester, trimester, or quarter hours being taken at the end of the registration period for that semester, trimester, or quarter.

.04 If an individual is described in section 6.01 or 6.02 of this revenue procedure, services performed by the individual are eligible for the Student FICA exception with respect to all services performed during all payroll periods of a month or less that fall wholly or partially within the academic term.

.05 The Student FICA exception does not apply to services performed by an individual who is not enrolled in classes during school breaks of more than five weeks (including summer breaks of more than five weeks), other than services described in section 6.04. See Rev. Rul. 72-142, 1972-1 C.B. 317, and Rev. Rul. 74-109, 1974-1 C.B. 288. However, the Student FICA exception applies to employment which continues during normal school breaks of 5 weeks or less during which the individual is not eligible for the Student FICA exception pursuant to section 6.01 of this revenue procedure provided that the individual qualifies for the Student FICA exception pursuant to section 6.01 of this revenue procedure on the last day of classes or examinations preceding the break and is eligible to enroll in classes for the first academic period following the break.

.06 If the standards of this revenue procedure are met (and section 8 does not apply), the amount of remuneration 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. If the services performed by a student otherwise described in section 6.01 or 6.02 are covered under an agreement pursuant to section 218 of the Act, the Student FICA exception does not apply.

.07 For provisions relating to domestic service performed by a student in a local college club, or local chapter of a college fraternity or sorority, see section 31.3121(b)2-1.

## **7. Definitions**

For purposes of the standard contained in section 6 of this revenue procedure, the following definitions must be used.

.01 Undergraduate student.

The term “undergraduate student” has the meaning attributed to that term in the Department of Education regulations at 34 C.F.R. section 674.2 (1997).

.02 Half-time undergraduate student.

The term “half-time undergraduate student” has the meaning attributed to that term in the Department of Education regulations at 34 C.F.R. section 674.2 (1997).

.03 Graduate or professional student.

The term “graduate or professional student” means a student who –

- (1) is enrolled at an institution of higher education for the purpose of obtaining a degree, certificate, or other recognized educational credential above the baccalaureate level or is enrolled in a program leading to a professional degree;
- (2) has completed the equivalent of at least three years of full-time study at an institution of higher education, either prior to entrance into the program or as part of the program itself; and
- (3) is not a postdoctoral student, postdoctoral fellow, medical resident, or medical intern.

.04 Half-time graduate or professional student.

The term “half-time graduate or professional student” means an enrolled graduate or professional student, as defined in section 7.03 of this revenue procedure, who is carrying at least a half-time academic workload at an institution of higher education as determined by that institution according to its own standards and practices.

## **8. Anti-Abuse Rule**

The standards in this revenue procedure must be applied in a reasonable manner, consistent with the purpose of excluding from employment only services that are performed as an incident to and for the purpose of pursuing a course of study at a school, college or university. See section 31.3121(b)(10)-2(c). If the standards are inappropriately applied in a manner that conflicts with this underlying purpose so as to manipulate or mischaracterize the nature of the relationship between an employee and an institution of higher education, resulting in the improper avoidance of payment of FICA taxes, then whether the Student FICA exception applies will be determined on the basis of all the facts and circumstances, rather than on the basis of the specific standards set forth in sections 5 and 6 of this revenue procedure. For example, the standards would be inappropriately applied through the manipulation of the relationship between employees and the institution of higher education if a university claimed that the Student FICA exception applied to research laboratory workers, who had been career employees, but were converted to non-career status and required to enroll in a certificate program granting six credit hours per semester for work experience in the laboratory. As another example, if an individual who was not a student worked for a university on a full-time basis for many years, in a job generally performed by non-students (but nonetheless failed to meet the literal definition of career employee), and then enrolled at the university for six credit hours of course work per semester while continuing the full-time work in the same job, it may not be appropriate to apply the standards of this revenue procedure to conclude that the individual's work has become incident to and for the purpose of pursuing a course of study solely because the individual enrolled for this course work. In both of these examples, whether the work is performed incident to and for the purpose of pursuing a course of study must be determined on the basis of all the relevant facts and circumstances.

### **Drafting Information**

The principal author of this revenue procedure is Neil D. Shepherd of the Office of Assistant Chief Counsel (Employee Benefits & Exempt Organizations). For further information regarding this revenue procedure, please contact Mr. Shepherd at (202) 622-4606 (not a toll-free number).