

**STUDENT/FICA 80% PROCESS
ATTACHMENT TO SERVICE REQUEST #16982
October 4, 2005
FINAL**

I. INTRODUCTION

A. Student/FICA Regulations

The Internal Revenue Service (IRS) has issued final regulations modifying the student FICA exception provided under Internal Revenue Code (IRC) section 3121(b)(10). The IRS also published Revenue Procedure 2005-11 which replaced the safe harbor contained in Revenue Procedure 98-16 for administering the student FICA exception. The old safe harbor allowed students to be exempt from FICA if they were enrolled at least half-time with no limitation on the number of hours worked.

Under the new guidelines, student employees will generally meet the new safe harbor rules if the following conditions are met:

- 1) must be employed by a school, college, or University;
- 2) cannot be a full-time employee;
- 3) is not a professional employee; and
- 4) is not eligible for certain employment benefits (vacation, sick leave, 403(b) participation, etc.)

The major difference from the previous revenue procedure is the more stringent definition regarding work schedules. The IRS states that as an employee's actual number of hours worked "approaches" 40 hours per week, it is more likely that the "services" aspect of the employee/employer relationship outweighs the employee's "educational" aspect. As a result, the student is ineligible for the exception.

Although the final regulations do not define the threshold at which an employee's hours of work would become predominant, IRS examples indicate 80% as not eligible for the exception and outside counsel for the University agrees with the interpretation.

B. SSN & Date of Birth

In addition to the change in the safe harbor rules, mask the Social Security Number and date of birth on the student FICA reports.

II. 80% APPOINTMENT PROCESS

Release 987 provided a process where a student's predominant appointment percentage was calculated based on the total appointments for each day. If the appointment was less than 50% for more than half the days of the month, then the student was eligible for the FICA exception. A process similar to this must be developed but not to the same extent.

For the new process, if a student has an appointment of less than 80% for one day during the month, then the student is eligible for the exception. In addition to modifying the current process, a one-time program will be needed to trigger rederivation of the retirement and FICA codes, DCP Indicator, and the Unemployment Insurance Coverage Code to use the new logic. If the student's appointments add up to 80% or more for the entire month, then the student is ineligible for the exception.

If a student is eligible for the exception, his Retirement System Code (EDB 0122), FICA Eligibility Code (EDB 0120), and UI Coverage Code are rederived to "N". If the student is not eligible, the Retirement and FICA codes are rederived to "H" and "M" respectively, the DCP Plan Code (EDB 0129) and UI Coverage Code are rederived to "Y".

A. Criteria

In order to be eligible for the FICA exception the student must meet the current following conditions:

The employee does not hold an active, salaried housestaff appointment;
and either

- The UC Student Status Code (EDB 0119) has a value of 3 or 6 and the number of registered units (EDB 0237) has a value which is equal to or greater than the value stored in System Parameter Number 71 (as determined by the campus);

or

- The UC Student Status Code is 4 or 7 and the number of registered units has a value which is equal to or greater than the value stored in System Parameter Number 72 (as determined by the campus).

In addition to the above conditions, the student must meet the new 80% test.

The 80% appointment process for the month is to be determined as follows:

1. The sum of the appointment percentages applicable to each day of the month needs to be determined. An appointment which is applicable to a particular day of the month is defined as an appointment with:
 - an Appointment Begin Date (EDB 2002) which is the same as or prior to the particular day and an Appointment End Date (EDB 2003) which is the same as or after the particular day, and
 - either no distributions, or one or more distributions with a DOS Code with Payment Category Code = N (Regular), and DOS Type of Hours Code = R (Regular), and Leave Code = Y.
2. If the appointment(s) are current for the month, determine if the total percentage of the appointments is less than 80%. If one day in the month is less than 80%, then the student is eligible for the exception. See Attachment 1.

B. Retirement/FICA Derivation Process

1. Current Process

Derivation of the Retirement System Code and FICA Eligibility Code is triggered as follows:

- whenever any one of the following data elements changes during the EDB File Maintenance process:

Student Status Code	EDB 0119
Retirement/FICA Derivation Indicator	EDB 0238
Number of Registered Units	EDB 0237
Citizenship Status Code	EDB 0109
Visa Type Code	EDB 0110
Appointment Begin Date	EDB 2002
Appointment End Date	EDB 2003
Time-Appointment Anticipated	EDB 2012
Time Reporting Code	EDB 2017
Title Code	EDB 2006

- whenever the Student Status Code and/or Number of Registered Units data elements changes during the SIS Special File Maintenance process;
- during the EDB Periodic Monthly Maintenance process, after the appointment purge has taken place, if the BELI rederivation flag has been set; the BELI rederivation flag is set during monthly periodic maintenance if an appointment begins in the new month or ended in the prior month.

2. Changes

The student Retirement/FICA derivation process in file maintenance, monthly periodic maintenance, and SIS special file maintenance should be modified to use the 80% appointment process when deriving an employee's retirement and FICA codes.

In addition to the data elements listed above, a DOS Code (EDB 2056) that is contained within a distribution that begins or ends, should trigger the rederivation process.

Rederivation should be triggered during monthly maintenance after the appointment purge has taken place (if an appointment began or ended in the prior month or begins or ends in the new month).

C. Unemployment Insurance Derivation Process

1. Current Process

The UI Coverage Code (EDB 0121) is set to "N", not covered, if all of the following conditions are met:

The Employment Status Code (EDB 0144) is not "S", separated,
 The Retirement System Code (EDB 0122) has a value of H, N, or blank
 The employee does not hold an active Housestaff appointment. (A housestaff appointment is defined as an appointment with a title code in the CTO 446 grouping.) and either,

The UC Student Status Code has a value of 3 or 6 and the number of registered units has a value which is equal to or greater than the value stored in System Parameter Number 71; or

The UC Student Status Code is 4 or 7 and the number of registered units has a value which is equal to or greater than the value stored in System Parameter Number 72.

2. Change

Modify the unemployment insurance derivation process to also use the 80% appointment rule to determine coverage.

D. One-Time Program

A one-time program is needed to trigger rederivation of the Retirement System Code, FICA Eligibility Code, DCP Plan Code, and UI Coverage Code for all eligible employees. The one-time program should use the derivation logic outlined above and should produce an Employee Change file (ECF) for audit purposes.

Employees in the eligible population are defined as follows:

- 1) Retirement/FICA Derivation Indicator = Y
- 2) Retirement System Code = H, N, or blank
- 3) Employment Status Code does not = S
- 4) UC Student Status Code = 3, 4, 6, or 7

After the derivation process has been run, a report is to be created which displays the records of all employees whose Retirement System or FICA Eligibility Codes have changed as a result of the rederivation. The report is to include the following information:

Employee ID Number
Employee Name (EDB 0105)
Primary Title Code (EDB 0460)
Employment Status Code (EDB 0144)
UC Student Status Code (EDB 0119)
Total Active Appointment Percentage
DCP Plan Code (EDB 0129)
Retirement System Code (EDB 0122)
 Prior Value
 New Value
FICA Eligibility Code (EDB 0120)
 Prior Value
 New Value
UI Coverage Code (EDB 0121)
Home Department Code (EDB 0114)
Home Department Name

The Total Active Appointment % column is coded as follows:

- Y = 80% or greater than, if the employee's appointments total 80% or more for the entire month
- N = < 80%, if the employee's appointments total < 80% for one day in the month or more
- H = at least 1 active housestaff appointment (a title code in the CTO 446 grouping)

The report is to be sorted by employee name or by employee name within Home Department Code order with a page break on Home Department. Also provide a record count at the end of the employee name sorted report and at the end of each home department report.

A specification card is to be developed to allow the user to specify which sort options are to be run.

A sample report is provided (see Attachment 2).

III. SOCIAL SECURITY NUMBER & DATE OF BIRTH

Mask the first 5 digits of the employee's Social Security Number (EDB 0111) and the year of the employee's Date of Birth (EDB 0107) on the following student/FICA reports:

- PPP1291 SIS Interface
- PPP1311 Changes to Retirement/FICA After SIS Update
- PPP1313 Employees With Student Codes 3 or 4 & Units 0
- PPP1314 Exact Match – No Change for Student Status Codes 6 & 7
- PPP1315 No Match, Student Status Not Updated for Casual/Restricted
- PPP1316 Student Status 6 or 7 Defaulted to 1 – Beginning of Academic Year
- PPP1317 No Match, Student Status Set to 1
- PPP1321 Employees With Retirement/FICA Derivation of N
- PPP1331 Employees With Student Status Code 5, 6, or 7
- PPP4452 Work Study Threshold Warning

See Attachment 3.

IV. IMPLEMENTATION

The final regulations were made effective April 1, 2005. These changes need to be implemented with January 2006 earnings.

JUNE

01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
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50% appointment											6/1 – 6/30															
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											10% appointment																6/11 – 6/30	
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											20% appointment																6/11 – 6/30	
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10% appointment				6/1 – 6/10																											
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Sum for the day

OCTOBER

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80 % appointment																	10/1 – 10/20													
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																	20% appointment										10/21 – 10/31			
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80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	50	50	50	50	50	50	50	50	50	50	50
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Sum for the day

Standard Report Heading

One-Time Ret/FICA Rederived

Employee Name/ Employee ID #	Primary Title	Emp Status	UC Student Status Code	Total Active Appt%*	DCP Plan Code	Ret/FICA Prior	Code New	UI Cov Code	Home Dept
Jones, Edward 123456789	8170	A	4	Y	Y	N/N	H/M	C	827701 HOSP EDU

Total Employees: 1

*TOTAL ACTIVE APPOINTMENT PERCENTAGE OF FULL TIME:

Y = 80% OR >; N = < 80%; H = AT LEAST 1 ACTIVE HOUSE STAFF APPT.; BLANK = APPTS NOT APPLICABLE