



## **Preserve the Student FICA Exemption**

### ***Every Dollar Counts for Millions of Student Workers***

The Student FICA Exemption helps college students who work on campus to help pay for college by exempting them from paying FICA (Social Security and Medicare) taxes. It should be preserved as part of the broader system of federal financial aid.

#### **Background**

- Enacted in 1935, the FICA exemption has helped millions of college students stretch their earned income to help pay for school.
- The legislative history of the student FICA exemption indicates Congress' intention to:
  - exclude a category of employees (students) who would accumulate social security benefits through other employment after completing their education; and
  - provide an important, indirect form of financial aid by excluding student "self-help" from the burden of FICA tax.
- IRS regulations have reinforced and strengthened the exemption for students working on campus while pursuing a course of study.

It is clear that financial aid is the primary policy objective of Congress in retaining the student exemption to FICA.

#### **Student Employment on Campus**

In 2011-12, more than 3.6 million students, 2.8 million undergraduate students and nearly 850,000 graduate students worked at least one job on college campuses to help pay for school. These students have campus jobs because they need to work to pursue their education goals.

#### **Reasons to Oppose Limitations or Elimination of the Student FICA Exemption**

- For over 70 years, the student FICA exemption has been a consistent Congressional priority to provide a form of "self-help" financial aid to students. Repeal of the exemption would impact millions of students working their way through college with campus jobs.
- Repeal of the student FICA exemption would also have the effect of cutting college and university operating funds, financial aid resources and potentially resulting in increased tuition costs by adding an almost 8 percent new tax burden on college and university student payrolls, a significant new expense for many institutions.



- In addition, changes or repeal of the exemption would create administrative complexity to student payroll processing, since payments up to the ceiling would be exempt, but payments above that level would be retroactively taxed back to the first dollar. As a result, a two-tiered tracking system would need to be developed to monitor student employees, creating an added compliance expense.

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