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Medical Students are Obligated to Pay Taxes

The US Supreme Court has finally settled a long-standing dispute in tax law – are medical students who are being trained and receive allowances while pursuing their studies in university hospitals students who work or workers who study? The answer to that question would determine whether it is mandatory by law for them to pay FICA taxes.

The verdict of the court is that medical students are workers who study and therefore are obligated to pay FICA payroll taxes for Social Security and Medicare. This judgment was made in a case that involved doctors in training at Mayo Clinic and the University of Minnesota Medical Center. The court ruled a unanimous 8-0 decision stating that medical residents are not entitled to the student exemption from paying FICA taxes because they work more than 40 hours a week. Chief Justice John Roberts stated that the IRS ruling on this is a “reasonable construction” of what Congress intends for tax exemptions for students.

The case arose after the IRS changed its ruling on payroll taxes in late 2004. Since the ruling was implemented, the Clinic and the University have been paying their FICA taxes.

The attorneys for Mayo Clinic and the University of Minnesota were

disappointed in the court's ruling. The attorneys feel that the Treasury Department had ignored the educational aspect of the medical residents' work.

If Mayo and the University had won the case, the hospital and their residents would have received a refund, estimated at \$24 million. Mayo said taxes for its residents are about \$2.7 million a year.

At first, Mayo Clinic and the University filed separate lawsuits against the IRS in 2007. The US District court ruled in favor of the Clinic and University but the government appealed to the Eighth US Circuit Court of Appeals. The Appellate Court reversed the lower court's decision. Then the Supreme Court upheld the ruling of the Appeals Court.

This was the second time the university went to court on the FICA-student issue. It won a favorable ruling in 1998 and received a \$40 million refund for the hospital and its residents.