



Policies & Procedures

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POLICY

The purpose of this policy is to ensure proper tax withholding and reporting for graduate students receiving funding from federally sponsored research grants, training grants, or university sources.

SCOPE

This policy and related procedures are applicable to all graduate students whose funding is from federally sponsored research grants (RO1), training grants (T32, T34, T35 & F32), and Drexel University or Drexel College of Medicine (Drexel Med) financial aid scholarships/fellowships. Throughout this policy any reference to Drexel University also applies to Drexel Med.

PROCEDURES/GUIDELINES

Type of Graduate Employee	Employee Class	Account Code
Research Assistant	SR	2420
Teaching Assistant	ST	2410
Research Fellow	SA	2420
Educational Scholarship/Fellowship Recipient (ESFR)	SF	2460
Graduate Assistant	SG	2410

Graduate Students

Graduate students who are enrolled full-time and receiving a stipend and/or tuition remission from a federally sponsored research program are subject to the following terms and conditions.

Stipends

Under OMB Circular A-21 and section 117(b) of the Internal Revenue Code, the amount paid to graduate students as a stipend is considered wages subject to federal income tax withholding. In addition, such amounts are reportable on Form W-2 at year-end. Such costs are allocable as **F & A** costs under section J.8.a of OMB Circular A-21.



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The following graduate student appointments are limited to individuals registered for a full course of study¹ in the graduate or professional programs at Drexel University. All graduate student appointments must include as part of the new hire paperwork a completed **Graduate Student Personnel Action Form**. This form may be downloaded from Drexel's Human Resources website.

Graduate Research Assistant – A Graduate Research Assistant (GRA) is generally a full-time graduate student hired to aid the research of a principal investigator or a member of the faculty. Equivalent research is not a requirement of all candidates for the degree in the student's particular program. The typical source of funding for a GRA is a federally sponsored research grant (e.g. RO1). A GRA's stipend is considered compensation for the research services rendered by the student. Therefore, the stipend is considered taxable compensation subject to Federal, Pennsylvania and City of Philadelphia wage tax withholding. The stipend would be exempt from FICA tax if the student is enrolled for at least a half-time academic workload.

Graduate Teaching Assistant – A Graduate Teaching Assistant (GTA) is a full-time graduate student enrolled in a degree program that teaches or guides undergraduate students under the direction of a faculty member. Generally, the GTA's stipend is funded by the student's home department. A GTA's stipend is considered taxable compensation for Federal, Pennsylvania and City of Philadelphia tax withholding purposes. The stipend would be exempt from FICA tax if the student is enrolled for at least a half-time academic workload.

Graduate Research Fellow – A Graduate Research Fellow (GRF) is a full-time graduate student receiving a stipend for research directly related to the program or specialty in which his or her degree is to be conferred. **The research component is a requirement of all candidates in that program as a condition for receiving such degree.** The source of funding is typically departmental funds, a federally sponsored research grant or a private foundation grant, such as the American Heart Association. A GRF's stipend is considered taxable compensation for Federal and City of Philadelphia tax withholding purposes. However, since the research component is a requirement for all candidates in the students program, the stipend is not subject to Pennsylvania personal income tax withholding. The stipend would be exempt from FICA tax if the student is enrolled for at least a half-time academic workload.

¹ Section 3121(b)(10) of the Internal Revenue Code provides for an exemption from Social Security (FICA) tax for students employed by a college or university. See the appendix for a definition of the Social Security (FICA) exemption.



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Graduate Student Appointments requiring no personal services of the student

N.R.S.A. Pre-Doctoral Fellow – A National Research Service Award (N.R.S.A.) Pre-Doctoral Fellow is an individual with a baccalaureate degree and is enrolled in and training at the post baccalaureate level in a program leading to a Doctor of Philosophy (Ph.D.) or Doctor of Science (Sc.D.) degree or a combined clinical degree and Ph.D. degree such as M.D./Ph.D. The source of funding is a National Research Service Award institutional or individual grant. A stipend is provided as a subsistence allowance for fellows to help defray living expenses during the research training experience. It is not provided as a condition of employment with either the Federal Government or Drexel University. One stipend level is used for all predoctoral candidates, regardless of the level of experience. Stipend levels are published in the *NIH Guide for Grants and Contracts*.

The stipend is not considered wages subject to withholding by Drexel University. There is no Wage and Tax Statement (W-2) reporting required by Drexel University under IRS Notice 87-31. Students should obtain IRS Publication 520 (Scholarships and Fellowships) to determine if any part of the stipend is taxable on their personal federal income tax returns. Since the stipend is not considered compensation for services rendered it is not subject to Social Security (FICA), Pennsylvania, and Philadelphia tax withholding.

Educational Scholarship/Fellowship Recipient – An Educational Scholarship/Fellowship Recipient (ESFR) is a full-time undergraduate or graduate student enrolled in a degree program. An ESFR receives a scholarship or fellowship that includes tuition, and may include a monthly stipend to help defray the cost of books, fees and other living expenses during his/her educational experience. The source of funds is normally a University endowed scholarship fund or a Dean's account. No research, teaching or other administrative duties are required of the student. Amounts paid to such students are to aid them in the pursuit of their studies, the primary purpose of which is to further the students' education and training. Since an ESFR is not required to perform personal services for Drexel University, there is no requirement by Drexel University to withhold federal income tax, Social Security (FICA) tax, Pennsylvania income tax or City of Philadelphia wage tax or report such payments on IRS Form W-2².

² Although no reporting or withholding is required for U.S. students, any amount of a scholarship or fellowship payment that exceeds "qualified tuition and related expenses" (i.e.-tuition, books, fees and certain other expenses) is considered taxable income under section 117(b) of the Internal Revenue Code. Any such excess scholarship payment should be reported by the student on his or her personal income tax return Form 1040 or 1040EZ. In addition, students may be required to make estimated tax payments.



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Graduate Assistant – A Graduate Assistant (GA) is a full-time graduate student hired to perform administrative tasks or assist a faculty member with special projects. A GA receives a salary for the administrative duties and may also receive tuition remission. The source of funding is typically departmental unrestricted funds. The salary is conditioned upon the performance of necessary administrative work or services performed on special projects for faculty members. **The GA position should not be used for work performed on federal research or training grants.** The salary is considered taxable compensation subject to federal, Pennsylvania and City of Philadelphia wage tax withholding. The stipend would be exempt from FICA tax if the student is enrolled for at least a half-time academic workload at the time he/she is appointed in the GA position.



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APPENDIX

Definitions

Section 3121(a) of the Internal Revenue Code (IRC) defines “wages” for purposes of FICA (Social Security) tax as all remuneration for employment, with certain exceptions. Section 3121 (b) of the IRC defines “employment” as services performed by an employee for an employer, with certain exceptions. Section 3121(b)(10) of the IRC excepts from the definition of employment, services performed in the employ of a school, college, or university, or an affiliated non-profit organization, if the service is performed by a student who is enrolled and regularly attending classes at that school, college or university.

Whether an employee has the status of a student is determined based on the employee’s relationship with Drexel University. An employee who performs services in the employ of Drexel University as an incident to and for the purpose of pursuing a course of study at Drexel 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.

Career employees eligible for employee benefits and participation in Drexel University’s or Drexel University’s College of Medicine retirement plan are **not** eligible for the Student FICA exception, because their employment is not considered to be incident to and for the purpose of pursuing a course of study.

An individual who is a half-time undergraduate, graduate or professional student and who is not a career employee will qualify for the Student FICA exception under IRS Rev. Proc. 98-16 with respect to services performed at Drexel University. Services performed by a Drexel University student for any other employer do not qualify for this exception. For example, students working for another employer during their co-op experience.

Undergraduate student – A student enrolled at Drexel University who is in an undergraduate course of study, which usually does not exceed four academic years, or is enrolled in a four to five academic year program designed to lead to a first degree.

Half-time undergraduate student – An undergraduate student who is carrying a half-time academic workload, as determined by Drexel University, which amounts to at least half the workload of a full-time student. The minimum standard is six semester hours per academic term.



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Graduate or professional student – A graduate or professional student is a student who —

1. Is enrolled at Drexel University 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/researcher, medical resident, or medical intern.

Half-time graduate or professional student – A graduate or professional student as defined above, who is carrying at least a half-time academic workload as determined by Drexel University’s standards and practices for graduate and professional students.