

University of Rochester
Frequently Asked Questions
About Medical Resident FICA Refund Claims

I. General Information

1. Who is Deloitte Tax LLP?

Deloitte Tax LLP is a professional service provider that is assisting the University of Rochester with the medical resident FICA refund claim process. Much of the official correspondence from University of Rochester to you, and from you to University of Rochester related to this claim will be handled by and through Deloitte Tax LLP.

2. What are FICA taxes?

FICA stands for the Federal Insurance Contributions Act. FICA taxes consist of two separate taxes, Social Security and Medicare taxes that are paid on wages earned for services performed. Employers withhold and pay their employees' share of the FICA taxes and also pay the employer share.

3. Why are FICA refunds being paid to medical residents and their employers?

After a 1998 court decision held that University of Minnesota medical residents were excepted from FICA tax as *students* under Internal Revenue Code section 3121(b)(10) (the *student exception*), some employers (typically hospitals and medical schools) and individual taxpayers (medical residents) began filing FICA refund claims. The University of Rochester filed its first refund claims for calendar year 1995 in response to the Minnesota decision and has filed refund claims for subsequent years through 2009. (At the time of the Minnesota decision, the time limit for claiming refunds for years before 1995 had expired.)

Even after the Minnesota decision, there was considerable uncertainty as to whether the *student exception* would prevail. The *student exception* had not previously been applied to medical residents and the IRS was not refunding such claims -- asserting that medical residents were employees (and not students). Lawsuits filed by institutions seeking to enforce FICA refund claims were vigorously fought by the Department of Justice, with mixed results. Refunds are now being paid because the IRS has made an administrative determination to accept the position that medical residents are excepted from FICA taxes for tax periods ending before April 1, 2005, when new IRS regulations went into effect.

For those years that an employer filed a refund claim, the claim includes two parts. The first part is the employer's FICA tax. The second part is the employee's FICA tax (for consenting medical residents only). In some cases, individual medical residents filed their own claims for their share of the FICA tax. The IRS held most claims in suspense because there was a dispute as to whether the student FICA exception applied.

4. Who is eligible to receive a refund?

Institutions that employed medical residents and individual medical residents are eligible to receive refunds if they are covered by timely filed FICA refund claims. Institutions can be covered under FICA refund claims they filed themselves. Individual medical residents can be covered under FICA refund claims they filed themselves or under claims filed by the institutions that employed them. These refund claims are subject to the same requirements that apply to all FICA refund claims including verification by the IRS of the amount of the claim and payment of interest.

5. How would this initiative impact my benefits from the Social Security Administration (SSA)?

Whether an individual's Social Security benefits (either current or future) will be reduced on account of removing wages from his or her Social Security earnings record will depend on the individual's personal circumstances. A refund could have a detrimental effect upon disability, survivors, or retirement benefits that you, or your family, are receiving or may seek to receive in the future. If you want information about the effect on your Social Security benefits, you should contact SSA directly at 1-800-772-1213 (toll free). If you call or visit a Social Security office, please have this letter with you. It will help SSA answer your questions. You might want to review your social security record before and after your refund

has been processed. You can use your current Social Security Statement or you can request a copy of your Social Security Statement at the SSA website: <http://www.ssa.gov/mystatement>.

6. What is the significance of April 1, 2005?

On April 1, 2005, new regulations regarding the student FICA exception became effective. One part of these regulations states that an employee who works 40 hours or more (full-time employee) for a school, college or university is not eligible for the student exception. The IRS maintains that this part of the regulations excludes medical residents from the student exception. The United States Supreme Court has agreed to hear a case involving the validity of the IRS's regulations regarding the student FICA exception and medical residents. The University of Rochester, which has filed refund claims for the second quarter of 2005 through the end of 2009, will continue to monitor the legal developments for the post-Regulation periods.

II. Refund Application Procedures

7. What must I do in order to be included in University of Rochester FICA refund claim for training that I received prior to April 1, 2005?

The letter included in this mailing provides detailed instructions on how to participate in University of Rochester's refund claim. If you wish to participate please read the materials thoroughly, complete and sign the Consent Form, and return the signed Consent Form as indicated on its face. Reply options are (1) email, (2) fax, and (3) hardcopy mail.

8. Why am I being asked to sign a consent?

An employer cannot recover the employee portion of a FICA refund on behalf of the employee without the employee's written consent.

9. I previously signed a consent for one or more years between 1998 and 2001. Do I need to submit a new consent letter for those years?

Yes. Though the Internal Revenue Service acknowledges that consents have been previously submitted by former residents, they are requiring consents to be obtained again as part of the current refund process. If you want the University to recover refunds for you for medical resident stipends paid to you in 1998 through 2001, please include those years on the Consent Form, along with any other years of your University of Rochester residency in which you want the University to act on your behalf. We will not act on your behalf for any years not included on the form.

10. If I consent, when will I get my money?

Residents who consent to participate in the refund claim process should not expect to receive their refund check from University of Rochester until several months (or even more than a year) after consenting. This is because there are multiple procedural steps that must be undertaken by University of Rochester and the government after the consents are received and before University of Rochester is able to remit the refunds to the residents (i.e. filing final refund claims, review and processing by the government, and allocation of interest to individual residents).

Please note that until you hear from us otherwise, you will be personally responsible for keeping your address information up to date and the refund process may take more than a year to resolve. Failure to do so could cause any refund checks to you to be undeliverable, and ultimately escheated to the state of your last known residence.

11. Will I receive interest on my refund?

Yes. The IRS will pay statutory interest when refunding these taxes and you will receive your proportional share. Interest in excess of \$600 will generally be reported on Form 1099-INT as required by the IRS.

III. Miscellaneous

12. Whom should I contact if I have questions regarding this initiative or to update my contact information?

Because each resident's personal tax situation is different, we encourage you to discuss questions about your particular situation with your tax preparer or other personal financial advisor. For general updates, please visit our website at www.URMC.Rochester.edu . For general procedural questions, you may contact Deloitte Tax LLP by email at urfica@ame1mail.deloitteonline.com

13. Is it too late for me to file my own refund claims?

Probably yes, for the period covered by this settlement process. But this is something you need to discuss with your own tax preparer or financial advisor.