



October 4, 2010

## Supreme Court to Decide on Student Doctors Tax Status

The US Supreme Court is to decide in its present sitting whether student doctors are considered students or employees of the college or university hospitals they work for. If they are student then they would be exempted from paying taxes on their stipends but if they are legally employees, then student doctors have to pay Social Security tax like any other worker.

As it stands, Federal Circuit courts are split in their rulings. The Supreme Court will hear the case of Mayo Foundation for Medical Education and Research vs. United States of America. Oral arguments are scheduled to be presented November 8.

The amount of money the government stands to collect in Social Security taxes comes up to about \$700 million per year from medical students in some 8,000 medical residency programs across the country. This does not include the \$2.1 million pending in medical school refund claims.

The law that governs the Social Security tax insofar as taxes on medical students are concerned is the Federal Insurance Contributions Act. This law states that student doctors and their respective colleges and universities are exempted from paying Social Security tax on the work these doctors perform as part of their training. Over the last 20 years, a number of court rulings were for resident student doctors to qualify for student exemption.

But in 2005, the Treasury Department changed its regulation, disqualifying full time resident medical students from exemption.

The plaintiffs in the landmark case is the Mayo Clinic of Rochester, and the University of Minnesota who filed suit against the IRS claiming that the agency should not require them to collect taxes from their resident doctors in training for they are students, not employees. The federal district court in Minnesota ruled for the plaintiffs and stated that the Treasury's 2005 regulation goes against the law that created the Social Security system and was opposed to Congress' student exemption guidelines and therefore was invalid. As such the federal district court ordered the IRS to refund all taxes collected from the Clinic and University.

But the IRS appealed the court's decision and won the judgment at the 8th US Circuit Appeals Court. The Appellate court overruled the federal district court's decision and ruled that exemption is only for part-time students who still attend classes while working at the Clinic whereas those who are resident medical students undergoing training after completion of their studies are considered employees.

The nation's four other Appellate courts, namely the 2nd, 6th, 7th and 11th, have made judgments on these cases before but all have been prior to the Treasury Department's 2005 ruling. Only the 8th Appellate court has made a judgment based on the 2005 Treasury Department regulation.