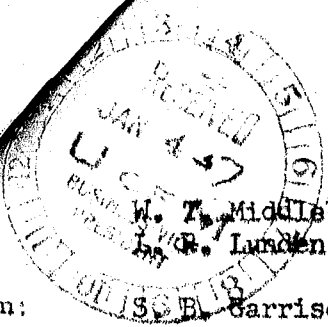


UNIVERSITY OF MINNESOTA  
BUSINESS ADMINISTRATION  
OFFICE OF THE COMPTROLLER  
MINNEAPOLIS 14

December 28, 1956

*W. T. Middlebrook  
C. Lundén  
S. B. Garrison  
you are authorized  
and signing  
By [Signature]  
1-7-57*



To: W. T. Middlebrook ✓  
C. Lundén  
S. B. Garrison

From:

Subject:

On November 21, 1956 we received a telephone call from Mr. V. C. Mullaney, Chief, Information and Review Section of the St. Paul Office of the Internal Revenue Bureau requesting an appointment with us regarding the income tax status of Medical Fellows. Accordingly we scheduled a meeting which was held in Mr. Jackson's office on November 28, 1956. Those participating in the meeting were Mr. Jackson, Mr. Cheese, Mr. Larson, and Mr. Garrison from our office, Dr. Maloney and Dr. Gault from our Medical School and Mr. Mullaney and Mr. Semba from the Bureau of Internal Revenue.

You will recall that Congress amended the Internal Revenue Code in 1954 specifically exempting stipends paid as scholarships and fellowships from taxable income. On the basis of this change in the law the University took the initiative in obtaining a ruling which acknowledged that the Medical Fellow program met the requirements of the new law. We also received permission from the District Director to not withhold tax from the stipends paid to Medical Fellows. You will also recall that in 1951 the Mayo Association had obtained such an exemption for Mayo Fellows based on the "gift" section of the code. It was not until January 1, 1955 however that we received permission from the Internal Revenue to no longer withhold tax on Mayo Fellows.

During this past year and particularly during the past summer we have been aware of a continuing problem which some of our Medical Fellows are having in justifying their tax exemption status to the Federal Government even though we had a specific ruling in file from the St. Paul office exempting them. We had also heard reports that an adverse ruling had been received from Washington but we had nothing official to act on.

Mr. Mullaney opened the meeting with the explanation that late in March they had had received a directive from Washington which would make both Medical Fellows and Mayo Fellows taxable. He said that we should have been notified of this action but none of us could remember having received such a notice. (In a complete review of the file I find an apparent mention of the ruling in correspondence about one of our non-service fellows but since the person was not a "Medical or Mayo Fellow" we did not recognize it as a reversal of the original ruling.) On the basis of this ruling, Mr. Mullaney explained, the Mayo administrators filed a request for hearing and later this summer appeared before the review section in Washington, D. C. As a result of this hearing the St. Paul office has been advised that the earnings of Mayo Fellows are tax exempt.

Mr. Mullaney explained that the reason he asked for a meeting with us was to discuss the facts concerning the Medical Fellow program so that he could determine whether or not there was any basis for requesting a review of the March decision on these individuals.

Mr. Mullaney first asked us what the source of funds is for making payments to the Medical Fellows, and we replied that the funds are from legislative appropriation. In our discussion on this point it was brought out that the source of funds is one of the factors in determining why payment is being made. It was implied that the success of the Mayo staff in securing exemption for Mayo Fellows was based on the fact that they were able to show that the funds to pay these stipends for services to the Mayo Clinic came from the Mayo Association, a third party. It was held that the grantor (Mayo ~~Association~~ Association) gave the money for medical research without expecting or deriving any benefit from the services of the Mayo Fellows. Mr. Mullaney contrasted this with the situation where a hospital might include in its budget a stipend for "residents" where the resident rendered service to hospital patients in lieu of such service being rendered by other hospital staff. In this case the grantor (the hospital) intends to benefit from the service rendered by the grantee.

We explained the University appropriation and budget allotment responsibility in some detail. We said that the Regents were given two amounts by the Legislature: one for the operation of the University Hospital and a second for the operation of all other units (including the Medical School). We then said that the Regents determined by annual allotment what amount given to the Medical School was to be used in the Medical Fellow program and that this determination was completely independent of the financial operation of the University Hospitals. The Medical School representatives emphasized this by stating that we have Medical Fellows who are paid by us but who are on duty at Veterans Hospital or other Hospitals. Mr. Mullaney agreed that the fact that the Hospital appropriation is separate from the Medical School appropriation is a point to be considered.

In addition to the source of funds a second factor is that the service rendered is incidental to the training under the fellowship grant. The service rendered by Mayo Fellows was found to meet this requirement and it was the opinion of Mr. Mullaney that the services rendered by Medical Fellows are substantially the same as those rendered by Mayo Fellows. We concluded that this factor will cause no problem in the final review.

From what we could learn of the Washington ruling it was apparent that in order to maintain the tax exempt status of the Medical Fellows we must establish that the primary purpose of the grants is to further the education and training of the Fellows.

We discussed ways in which this might be done. As one approach we listed the following differences between Medical Fellows and full time teaching staff.

1. Medical Fellows are not responsible for technical errors in their treatment of patients.
2. Medical Fellows are not eligible for insurance or retirement plans or for social security.
3. Medical Fellows are not entitled to vacation or sick leave.
4. Medical Fellows are enrolled in the Graduate School and are primarily students.
5. Medical Fellows have no voice in administrative actions through the University Senate.
6. Medical Fellows have no tenure status.
7. Medical Fellows are not eligible for sabbatical leaves.

In addition to listing these differences we also had searched the Regents index for some notation that the Medical Fellow program had been officially presented and accepted. We did not find such a reference nor did we find much information in the Graduate School Bulletin. When we first applied for tax exemption for Medical Fellows in January, 1955, we received the following statement from Dr. Maloney describing the Medical Fellow program.

"These men are graduate physicians who have foregone entry into or given up the private practice of medicine to attend the Medical School for additional advanced training in specialized branches of Medicine. They are enrolled and pay tuition in the Graduate School as candidates for advanced degrees and devote their entire time to graduate work. The length of this training is three years. Their time is spent entirely in study, research and teaching under the direct supervision of the faculty of the Medical School. Insofar as the study of medicine concerns itself with the actual care of patients, these men participate in that care. Their participation, however, is only to the extent that it contributes to their training and is not performed as a service to the patient. The stipend which a Medical Fellow receives amounts to \$2,190.00 per year. This represents an educational subsidy, not a remuneration for services rendered."

In order to establish that the primary purpose of these grants is to further the education and training of the Fellows we thought that it might have merit to ask for a resolution by the Board of Regents which

W. T. Middlebrook  
L. R. Lunden

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December 28, 1956

would formally recognize such a description of the program.

As we concluded our meeting Mr. Mullaney seemed to agree with us on several basic points.

1. That there is a positive separation between the purpose of the Medical Fellow program and operation of the University Hospital.
2. That the Board of Regents has authority to set up fellowship stipends for Medical Fellows from appropriated funds.
3. That the Medical Fellow program at the University is quite similar to the Mayo Fellow program and in some aspects very dissimilar to the Veterans' Hospital "resident" program.
4. That there are enough facts which have not been considered to warrant the request for an appeal of the March, 1955 ruling as it applied to Medical Fellows.

Mr. Mullaney said that he would advise us of further action which he wished us to take and implied that we should proceed on the same basis as we have been working on for the past two years.

Subsequently, under date of December 14, 1956 we have received the attached letter from Mr. Mullaney to E. C. Jackson which again establishes the tax exempt status of Medical Fellows. To close this file we recommend an acknowledgement of Mr. Mullaney's letter and that the Dean of Medical Sciences advise present Medical Fellows of this ruling if he feels it desirable.

*8/3/56*

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## UNIVERSITY OF MINNESOTA

JAN 24 1957

BUSINESS ADMINISTRATION

OFFICE OF THE COMPTROLLER

MINNEAPOLIS 14

January 18, 1957

To: Dean Harold S. Diehl, Medical Science  
From: E. C. Jackson, Assistant Comptroller  
Subject: Medical Fellows

During the past months there have been a number of discussions and decisions relative to the taxability of Mayo Fellows and Medical Fellows at the University of Minnesota. Early in the year the Internal Revenue Service ruled that both were taxable. Subsequently, the decision was reversed as it pertained to Mayo Fellows, but not the regular Medical Fellows at the University. Finally on November 21, 1956, Mr. Mullaney and Mr. Semba representing the Internal Revenue Service, and Dr. Gault, Dr. Maloney, Mr. Garrison, Mr. Larson, Mr. Cheese and I met in my office to review the general problem.

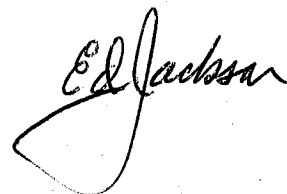
As a result of our discussion, Mr. Mullaney wrote me on December 14, 1956, and I am very pleased to say reversed the original ruling and now declares the Medical Fellows to be non-taxable. For your information I am attaching a copy of his advice, as well as a copy of Mr. Garrison's report of December 28, 1956, as I believe both should be a matter of record. (I find that Mr. Mullaney's letter of December 12, 1956, has already been mailed.)

While I feel that the decision is a proper one, I am still concerned over the apparent inconsistency of our position. I am convinced that a basic reason for Mr. Mullaney's decision was the insistence on the part of Drs. Gault and Maloney, that the Medical Fellows did not render service. Frankly, it did not occur to me then, but subsequently I was reminded of your position a few years ago when the same individuals were given staff status in order to qualify them for the resident tuition rate. It was your opinion that these individuals rendered not less than the 25% service which was required by the Fee Committee to qualify them for the resident tuition rate. If we are to keep faith with our presentation to the Internal Revenue Service, then some modification of either their fee or staff status must be made here at the University. I feel that this is a serious matter and one which you would wish to consider carefully.

In the meantime we will be guided by the decision of December 14, 1956, and will leave any information release to you.

dm

cc: W. T. Middlebrook  
L. R. Lunden  
C. S. Plank - C. Grygar  
Sterling Garrison



January 28, 1957

Mr. W. T. Middlebrook  
326 Administration

Dear Mr. Middlebrook:

I have before me Mr. Jackson's letter of January 18 relative to the apparent inconsistency of our statement to the Internal Revenue Service concerning the amount of service rendered by Medical Fellows and the fact that for Graduate School registration these individuals are charged the basic resident tuition rate to qualify for which members of the instructional staff are required to hold appointments working 25 percent time or more.

As I remember, it was decided by the Fee Committee to set the tuition rate for Medical Fellows at the basic resident Graduate School rate without reference to the amount of service rendered. Prior to this time Medical Fellows had never been charged tuition. In fact, even now the tuition is paid by the hospital rather than by the individual.

As to what percentage of a Medical Fellow's time is spent in service and how much in graduate training, it is impossible to state. Fellows devote their entire time to graduate work, a large proportion of which involves the care of patients. On the other hand, this service is an integral and essential part of their training. In fact, little, if any, of the service rendered is unrelated to such training.

The situation of a Medical Fellow is entirely different from that of an Instructor or other University employee who devotes a certain percentage of his time to instruction or other University service and has the rest of his time free for graduate study or other employment or activity. It is obvious, therefore, that the same yardstick to measure service cannot be applied to Medical Fellows as to other University employees.

This has been my understanding of the basis for authorization of the resident tuition rate for Medical Fellows. I hope that it also has been or will be made the interpretation of the Fee Committee.

Sincerely,

cc Mr. E. C. Jackson  
Mr. L. R. Lundén  
Mr. O. Flank  
Mr. C. B. Gygger  
Mr. S. B. Garrison  
Mr. R. M. Amberg  
Dr. N. L. Gault

H. S. Diehl

UNIVERSITY OF MINNESOTA

BUSINESS ADMINISTRATION

OFFICE OF THE COMPTROLLER

MINNEAPOLIS 14

February 20, 1957

To: W. T. Middlebrook, Business Vice President  
From: E. C. Jackson, Assistant Comptroller  
Subject: Medical Fellows

I have reviewed Dean Diehl's letter of January 26, in response to mine of January 18, relative to the current tax status of Medical Fellows with care. In addition I have discussed with Mr. T. Pettengill, University Recorder, the action of the Fee Committee relative to the tuition status of the Medical Fellows. Part of this material referred to the original discussion and recommendation of Dean Diehl as to the status of the Medical Fellow.

Two facts seem clear:

First, all MEDICAL FELLOWS are presently granted graduate student resident status based on the formal regulation of the Regents approved on May 11, 1951 which states:

"All Academic Appointees giving 25% or more of full time service, and all full time (later changed to 75%,) Civil Service Employees, when enrolled in the Graduate School, be required to pay tuition at the graduate school resident rate regardless of source of funds, resident status, or curriculum pursued."

Secondly, such status was approved by the Fees Committee on the representation of Dean Diehl in June of 1951, and later Dr. Gault, that such Medical Fellows were in fact, and without exception, giving 25% or more of full time service to the University.

It is the opinion of Mr. T. Pettengill, University Recorder, and myself, therefore, that the present tuition status of the Medical Fellow was approved on the understanding that they gave a minimum of 25% service. This, then leaves us, as I indicated in my letter of January 18, in the untenable position of accepting the ruling of the Internal Revenue Service as to the exception of Medical Fellows from taxation because of non-service, while at the same time our fee committee approves a resident tuition based on 25% service. At the present time our relations with the local tax people is excellent and I am certain that our future relations will be jeopardized if we do not modify our present procedure.

Dean Diehl points out in his letter of January 26 that "the situation of a Medical Fellow is entirely different from that of an

February 20, 1957

W. T. Middlebrook

Instructor or other University Employee who devotes a certain percentage of his time to instruction or University service and has the rest of his time free for graduate studying or other employment or activity." He continues "It is obvious, therefore, that the same yardstick to measure service cannot be applied to Medical Fellows as to other University Employees." I, of course, do not question Dean Diehl's interpretation but, I feel in view of my explanation above, either that (1) the Fee Committee must cancel its action putting Medical Fellows on a resident status, regardless of domicile and require them to pay graduate school tuition in accordance with their domicile or, (2) the fee committee must approve the non-resident status of Medical Fellows without regard to service on the basis of Dean Diehl's letter of January 28.

This is clearly a question of University policy and I recommend that one of the above actions be taken at once.

cc:

- Dr. Gault
- L. R. Lunden
- Dean Diehl
- S. B. Garrison
- T. S. Pettengill

The admission of a Medical Fellow to membership follows a period of the Registrar or other University Employee who devotes a certain percentage of his time to instruction or other University service and has the rest of his time free for graduate studying or other employment or activity. It is obvious, therefore, that the same yardstick to measure service cannot be applied to Medical Fellows as to other University Employees.

This has been the policy of the University since the establishment of the resident status for Medical Fellows. I am sure that the University will continue this policy.



UNIVERSITY OF MINNESOTA

THE MEDICAL SCHOOL

MINNEAPOLIS 14

MINNEAPOLIS 14

April 2, 1957

DEAN OF THE MEDICAL SCIENCES

From:

W. S. Diehl, Director of Postgraduate Education

Subject:

Medical and Dental Fellows

To: Dean Richard E. Konarka  
Chairman, University Fee Committee

From: W. S. Diehl

At a recent conference attended by you, Mr. Middlebrook, Mr. Willey, Mr. Lunden, Mr. Jackson and myself relative to the problem concerning the tax exemption and tuition status of the Medical Fellow, it was agreed that I should recommend the following to the University Fee Committee:

In view of the fact that Medical and Dental Fellows and Medical Fellow Specialists are provided grants-in-aid to forward advanced education in Medicine and Dentistry, the holders thereof shall be charged tuition at the Graduate School resident rate regardless of source of funds, resident status, or curriculum pursued.

- cc Mr. Middlebrook
- Mr. Willey
- Mr. Lunden
- Mr. Jackson
- Mr. Pattengill

It is recommended that the University Fee Committee be advised of the above.

Respectfully,  
W. S. Diehl  
Director of Postgraduate Education

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April 24, 1958

Dr. O.H. Wangensteen  
Department of Surgery  
Box 195

Dear Owen:

Thank you for your letter of April 23 concerning the Graduate School status of interns and residents.

I was interested in your proposal that interns, like fellows, be registered in the Graduate School and pay Graduate School tuition. It is true that there would be many advantages which would devolve both to the intern and to the Medical School if this practice were carried out. I do fear, however, that the necessity of paying Graduate School tuition would be a deterrent for some prospective interns. This would, in my opinion, be true even if the internship stipend were to be increased commensurate with Graduate School tuition. I do not know of any way in which the Graduate School tuition could be made "nominal". The minimum would be somewhere in the neighborhood of \$70 per quarter which would be unduly high for this purpose. In any event, though, I shall ask the Graduate Group Committee to give consideration to this suggestion.

Your question concerning the tax status of fellows at the Veterans Administration Hospital is a rather complicated one. Essentially, however, the situation is this: the local internal revenue office two years or so ago gave us a favorable ruling. In other words, fellows at the Minneapolis VA Hospital were not required to pay tax on their stipends, according to this ruling. This ruling, however, has now been reversed by the Internal Revenue Office in Washington, D.C. and we do not see any immediate means of obtaining relief from this most recent ruling which over-rides that of the local office. The VA Central Office does not support our request for tax exempt status of our VA fellows. They say that the law provides payment to residents in VA Hospitals only on the basis of services rendered and that, therefore, the income is taxable. We are currently trying to do what we can about this situation, but frankly the prospects do not look bright.

With many thanks for your interest, I am

Sincerely yours,

RBH:pb

Robert B. Howard, M.D.  
Associate Dean