

How the Permanent Paid Family & Medical Leave Tax Credit Helps Employers Save

A major update in recent tax legislation has made the employer credit for paid family medical leave a permanent fixture. Since 2017, this credit has encouraged businesses to offer paid leave by offsetting some of the costs through tax relief. Now with permanent status under OBBBA, employers can plan benefits with greater confidence and consistency.

Originally, this credit rewarded employers who provided paid family and medical leave to qualifying employees. Here's how it used to work. Employees need to be with your company for at least a year. They had to earn \$96,000 or less. You could claim a credit between 12.5% and 25% of the wages paid during leave, depending on how much of the regular pay was covered. The leave had to last at least two weeks at 50% pay or more. There was one catch: the credit didn't apply if the leave was already required by state law.

Now that it's permanent, there are several key updates that make the credit more flexible and accessible. Employees are eligible after just six months of service, down from a full year. To qualify, they must work at least 20 hours a week. That sets a clear line for part time eligibility. If your company uses insurance to fund paid leave, the premiums can now count toward the credit. The credit applies in all states, even those with their own paid leave programs. And finally, the policy documentation rule is a bit more flexible. You still need a written policy, but there's some allowance for exceptions if there's a legitimate business reason.

If you already offer paid family medical leave, this is good news. The program's not going anywhere, and more of your employees, especially newer hires, may now qualify. If you've never looked into the credit before, now is the time. The inclusion of insurance premiums could help you manage costs more effectively, particularly for small and mid-sized businesses that want to offer strong benefits without stretching the budget.

Here's your quick next step checklist. Review your current paid leave policy and make sure it meets the newer rules. Identify which employees qualify under the six-month and 20 hour requirements. If you use insurance, keep records of those premiums, as they count towards your credit. Talk with your tax advisor to confirm how these changes apply to your business.

This update brings more predictability to your benefits planning. With the paid family medical leave credit now permanent, businesses could invest in their employees with confidence and see some financial relief in return. If you've been considering offering paid leave, this might be the perfect time to take another look.

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