

## §45S, Employer credit for paid family and medical leave

Changes by P.L. 119-21 (H.R. 1, [OBBB](#), 7/4/25):

- SEC. 70304 expands this credit and makes it permanent (it was otherwise set to expire after 2025).
- Also modifies §280C(a) by replacing “45S(a) with 45S(a)(1)(A), and inserting after the first sentence: “No deduction shall be allowed for that portion of the premiums paid or incurred for the taxable year which is equal to that portion of the paid family and medical leave credit which is determined for the taxable year under section 45S(a)(1)(B).”
- Effective for tax years beginning after 12/31/25.
- As explained by the [Senate Finance Committee](#): “This provision extends the paid family and medical leave credit permanently and makes three modifications. First, it modifies the credit to allow it to be claimed for an applicable percentage of premiums paid or incurred by an eligible employer during a taxable year for insurance policies that provide paid family and medical leave for qualifying employees. Second, it includes an aggregation rule and as a result, each member of a controlled group must have a written policy providing paid family and medical leave that meets the requirements of section 45S. However, an employer that is otherwise eligible to receive the PFML tax credit would not fail to be eligible merely because another member of the employer’s controlled group provides paid leave under a State or locally mandated policy. Third, it permits the employer to lower the minimum employee work requirement from 1 year to 6 months. This provision applies to taxable years beginning after December 31, 2025.”

### (a) Establishment of credit

(1) In general. For purposes of section 38, in the case of an eligible employer, the paid family and medical leave credit is an amount equal to ~~the applicable percentage of the amount of wages paid to qualifying employees during any period in which such employees are on family and medical leave~~ either of the following (as elected by such employer):

(A) The applicable percentage of the amount of wages paid to qualifying employees with respect to any period in which such employees are on family and medical leave.

(B) If such employer has an insurance policy with regards to the provision of paid family and medical leave which is in force during the taxable year, the applicable percentage of the total amount of premiums paid or incurred by such employer during such taxable year with respect to such insurance policy.

(2) Applicable percentage. For purposes of paragraph (1), the term “applicable percentage” means 12.5 percent increased (but not above 25 percent) by 0.25 percentage points for each percentage point by which the rate of payment (as described under subsection (c)(1)(B)) exceeds 50 percent.

(3) Rate of payment determined without regard to whether leave taken. For purposes of determining the applicable percentage with respect to paragraph (1)(B), the rate of payment under the insurance policy shall be determined without regard to whether any qualifying employees were on family and medical leave during the taxable year.

(b) Limitation

(1) In general. The credit-allowed wages taken into account under subsection (a) with respect to any employee for any taxable year shall not exceed an amount equal to the product of the normal hourly wage rate of such employee for each hour (or fraction thereof) of actual services performed for the employer and the number of hours (or fraction thereof) for which family and medical leave is taken.

(2) Non-hourly wage rate. For purposes of paragraph (1), in the case of any employee who is not paid on an hourly wage rate, the wages of such employee shall be prorated to an hourly wage rate under regulations established by the Secretary.

(3) Maximum amount of leave subject to credit. The amount of family and medical leave that may be taken into account with respect to any employee under subsection (a) for any taxable year shall not exceed 12 weeks.

(c) Eligible employer For purposes of this section—

(1) In general. The term “eligible employer” means any employer who has in place a written policy that meets the following requirements:

(A) The policy provides—

(i) in the case of a qualifying employee who is not a part-time employee (as defined in section 4980E(d)(4)(B)), not less than 2 weeks of annual paid family and medical leave, and

(ii) in the case of a qualifying employee who is a part-time employee, an amount of annual paid family and medical leave that is not less than an amount which bears the same ratio to the amount of annual paid family and medical leave that is provided to a qualifying employee described in clause (i) as—

(I) the number of hours the employee is expected to work during any week, bears to

(II) the number of hours an equivalent qualifying employee described in clause (i) is expected to work during the week.

(B) The policy requires that the rate of payment under the program is not less than 50 percent of the wages normally paid to such employee for services performed for the employer.

(2) Special rule for certain employers

(A) In general. An added employer shall not be treated as an eligible employer unless such employer provides paid family and medical leave in compliance with a written policy which ensures that the employer—

(i) will not interfere with, restrain, or deny the exercise of or the attempt to exercise, any right provided under the policy, and

(ii) will not discharge or in any other manner discriminate against any individual for opposing any practice prohibited by the policy.

(B) Added employer; added employee For purposes of this paragraph—

(i) Added employee. The term “added employee” means a qualifying employee who is not covered by title I of the Family and Medical Leave Act of 1993, as amended.

(ii) Added employer. The term “added employer” means an eligible employer (determined without regard to this paragraph), whether or not covered by that title I, who offers paid family and medical leave to added employees.

(3) Aggregation rule. ~~All persons which are treated as a single employer under subsections (a) and (b) of section 52 shall be treated as a single taxpayer.~~

A) In general. Except as provided in subparagraph (B), all persons which are treated as a single employer under subsections (b) and (c) of section 414 shall be treated as a single employer.

(B) Exception.

(i) In general. Subparagraph (A) shall not apply to any person who establishes to the satisfaction of the Secretary that such person has a substantial and legitimate business reason for failing to provide a written policy described in paragraph (1) or (2).

(ii) Substantial and legitimate business reason. For purposes of clause (i), the term ‘substantial and legitimate business reason’ shall not include the operation of a separate line of business, the rate of wages or category of jobs for employees (or any similar basis), or the application of State or local laws relating to family and medical leave, but may include the grouping of employees of a common law employer.

(4) Treatment of benefits mandated or paid for by state or local governments. For purposes of this section, any leave which is paid by a State or local government or required by State or local law ~~—shall not be taken into account in determining the amount of paid family and medical leave provided by the employer.~~

(A) except as provided in subparagraph (B), shall be taken into account in determining the amount of paid family and medical leave provided by the employer, and

(B) shall not be taken into account in determining the amount of the paid family and medical leave credit under subsection (a).

(5) No inference. Nothing in this subsection shall be construed as subjecting an employer to any penalty, liability, or other consequence (other than ineligibility for the credit allowed by reason of subsection (a) or recapturing the benefit of such credit) for failure to comply with the requirements of this subsection.

(d) Qualifying employees. For purposes of this section, the term “qualifying employee” means any employee (as defined in section 3(e) of the Fair Labor Standards Act of 1938, as amended) who—

(1) has been employed by the employer for 1 year or more (or, at the election of the employer, for not less than 6 months), and

(2) for the preceding year, had compensation, as determined on an annualized basis (pro-rata for part-time employess) not in excess of an amount equal to 60 percent of the amount applicable for such year under clause (i) of section 414(q)(1)(B), and-

(3) is customarily employed for not less than 20 hours per week.

(e) Family and medical leave

(1) In general. Except as provided in paragraph (2), for purposes of this section, the term “family and medical leave” means leave for any 1 or more of the purposes described under subparagraph (A), (B), (C), (D), or (E) of paragraph (1), or paragraph (3), of section 102(a) of the Family and Medical Leave Act of 1993, as amended, whether the leave is provided under that Act or by a policy of the employer.

(2) Exclusion. If an employer provides paid leave as vacation leave, personal leave, or medical or sick leave (other than leave specifically for 1 or more of the purposes referred to in paragraph (1)), that paid leave shall not be considered to be family and medical leave under paragraph (1).

(3) Definitions In this subsection, the terms “vacation leave”, “personal leave”, and “medical or sick leave” mean those 3 types of leave, within the meaning of section 102(d)(2) of that Act.

(f) Determinations made by Secretary of Treasury. For purposes of this section, any determination as to whether an employer or an employee satisfies the applicable requirements for an eligible employer (as described in subsection (c)) or qualifying employee (as described in subsection (d)), respectively, shall be made by the Secretary based on such information, to be provided by the employer, as the Secretary determines to be necessary or appropriate.

(g) Wages. For purposes of this section, the term “wages” has the meaning given such term by subsection (b) of section 3306 (determined without regard to any dollar limitation contained in such section). Such term shall not include any amount taken into account for purposes of determining any other credit allowed under this subpart.

(h) Election to have credit not apply

(1) In general. A taxpayer may elect to have this section not apply for any taxable year.

(2) Other rules. Rules similar to the rules of paragraphs (2) and (3) of section 51(j) shall apply for purposes of this subsection.

~~(i) Termination. This section shall not apply to wages paid in taxable years beginning after December 31, 2025.~~