Paid Family and Medical Leave Tax Credit Extension and Enhancement Act

BACKGROUND:

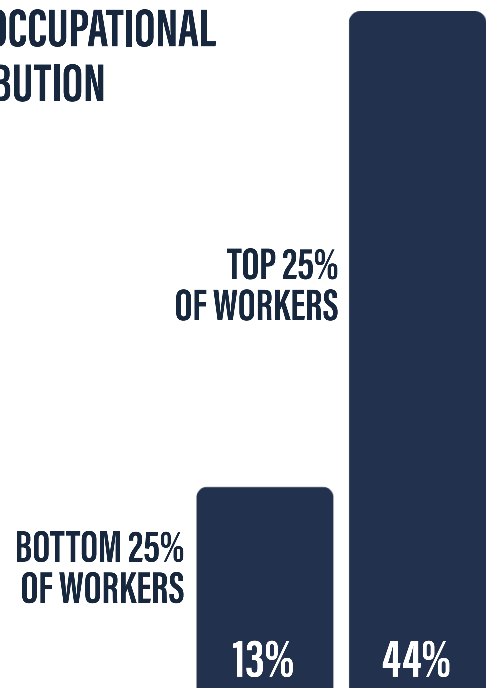
The Tax Cuts and Jobs Act (TCJA) created a two-year general business tax credit, Section 45S of the tax code, for employers that voluntarily offer up to 12 weeks of paid family and medical leave (PFML) to employees. Congress has extended the credit through 2025.

Under current law, in order to claim the credit, an employer must: offer all qualifying employees at least two weeks of PFML, have a written PFML policy in effect, and pay at least 50% of an employee's normal wages while on PFML.

The credit is targeted to those who need PFML the most: lower to middle income and hourly workers.

WORKER ACCESS TO PAID FAMILY AND MEDICAL LEAVE ACCORDING TO DATA FROM THE BUREAU OF LABOR STATISTICS

BY AVERAGE OCCUPATIONAL WAGE DISTRIBUTION



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KEY CHANGES TO THE 45S TAX CREDIT

Making the Credit Permanent

- With the credit set to expire at the end of 2025, it is critical to provide certainty to businesses looking to offer PFML for their employees, and the bill provides that certainty through making the credit permanent.

Treatment of Leave Paid or Mandated by State or Local Government Mandates

- Currently, employers who provide PFML due to state or local government mandates are ineligible for the credit. This has created situations in which an employer with operations in both non-mandate and mandate states is ineligible for the credit, even for leave provided in areas with no mandate.
- The bill includes a fix to enable employers in these situations to receive the credit for leave provided in non-mandate states as well for leave that is in excess of any state or local mandate.

Coverage of Paid Family Leave Insurance Premiums

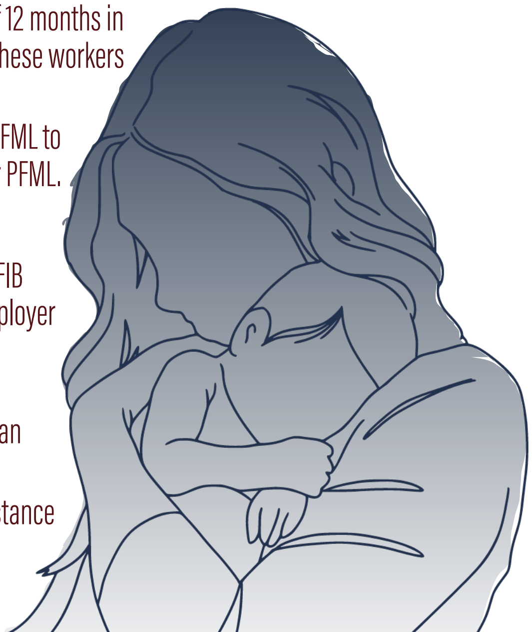
- While many larger businesses have the ability to self-finance PFML, it is often difficult for smaller businesses to do so. Data from the BLS found that 41% of workers at employers with over 500 employees had access to PFML, while only 20% of workers at employers with less than 99 employees had access to PFML.
- A new type of insurance product, known as Paid Family Leave (PFL) insurance has developed in many states to provide an alternative option for financing leave.
- PFL insurance allows employers to pay monthly premiums towards an insurance plan that pays an employee a percentage of their wages while on qualifying PFL. This type of insurance provides an important alternative to one-size-fits-all mandated PFL policies.
- Accordingly, the bill allows employers to claim the credit for a portion of the premiums they pay. The structure of the credit mirrors the current credit, ensuring that employers can receive up to a 25% credit towards the yearly premiums they pay for the plan, depending on the percentage of wages the insurance plan replaces while an employee is on leave.

Reducing Minimum Employment Period Requirement

- In our everchanging economy, the average tenure of employees at their employer continues to decrease. This is particularly true for our younger workers. According to data from the BLS, nearly one quarter of workers (24.3%) had been with their current employer one year or less. Among those 25 to 34, that percentage is 30.6%. At the same time, these workers are often those who need access to PFML the most.
- However, under current law, an employee must be employed by their employer for a minimum period of 12 months in order for their employer to receive the credit if they take PFML. Unfortunately, this means that many of these workers are ineligible for the credit, decreasing their employer's incentive to offer PFML.
- To better target the credit to these younger workers, the bill provides the option for employers to offer PFML to their employees at 6 months and be eligible to receive the credit, to incentivize more employers to offer PFML.

Requiring Relevant Federal Entity Outreach

- Many businesses, particularly small businesses, remain unaware of the credit. According to a recent NFIB survey, only 22% of small business owners knew that the credit existed. Additionally, the temporary employer tax credits enacted during the pandemic caused significant confusion for employers as to the ongoing availability of the PFML credit.
- There are multiple federal agencies who regularly interact with employers and relevant partners who can help increase awareness of the credit.
- The bill requires the SBA as well as the IRS to conduct targeted outreach, education, and technical assistance to assist in increasing awareness of the credit.



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