

PAID FAMILY AND MEDICAL LEAVE TAX CREDIT

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**ADVANCING AMERICAN
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TOPLINE: The One Big Beautiful Bill (OB BB) permanently extended the 2017 Tax Cuts and Jobs Act's (TCJA's) Paid Family and Medical Leave Tax Credit for employers who provide paid leave. OB BB also expanded the credit to cover qualifying paid family and medical leave *insurance premiums*.

BACKGROUND: TCJA created a tax credit for employers who provided qualifying paid family and medical leave beginning in tax years 2018-2025. To qualify for the credit, employers must have provided at least two weeks of qualified paid family and medical leave that replaced at least 50% of regular employee wages. The amount of the credit ramped up from 12.5% to 25% of qualifying replaced wages for employers whose paid leave replaced between 50% and 100% of regular wages. The credit could be applied to up to the first 12 weeks of leave. The credit was scheduled to expire after 2025.

Some small business advocates criticized the credit in TCJA because it primarily benefited bigger businesses, who are more likely to offer qualified paid leave. It's harder for small employers to accommodate unplanned absences, so they tend to offer informal paid leave that lets them balance both the workers' and the business' needs. *Qualified* paid leave requirements can be prohibitive for small employers.

What OB BB Did:

- Permanently extended TCJA's 12.5% - 25% Paid Family and Medical Leave Tax Credit for tax years in 2026 and beyond.
- Broadened the tax credit to cover premiums paid by employers for qualifying paid family and medical leave insurance.
 - Paid family and medical leave insurance is a good option for many *small employers* for whom offering paid leave directly would be difficult.

Why It Matters?

- The tax code treats wages and benefits inconsistently. Wages are subject to income and payroll tax, while benefits like health insurance are exempt from both.
- Paid leave is subject to both income and payroll taxes. The Paid Family and Medical Leave Credit makes paid leave tax-advantaged compared to wages but leaves it tax-disadvantaged compared to most non-monetary benefits.

Where Can I Find the Changes? OB BB Section [70304](#); 26 U.S.C. § [45S](#)

BOTTOMLINE: Congress should reduce the tax code's bias that works against employers who pay generous wages instead of providing generous benefits.

