



## Regulatory Update

# IRS Releases Taxation Guidance on State Paid Family and Medical Leave Programs



On January 15, 2025, the Internal Revenue Service (IRS) issued guidance via [Revenue Ruling 2025-4](#) (RR 2025-4) on the **federal** income and employment tax treatment of contributions and benefits paid in certain situations under a state paid family and medical leave program (SPFML), as well as the related reporting requirements. RR 2025-4 provides guidance to the District of Columbia and states that have mandatory paid family and medical leave programs, and for employees working in and employers operating in those states.

**Although the effective date of the guidance is January 1, 2025, it is important to note that RR 2025-4 stated that “calendar year 2025 will be regarded as a transition period for purposes of IRS enforcement and administration of the information reporting requirements...and this period is intended to provide States and employers time to configure their reporting and other systems and to facilitate an orderly transition to compliance” with the rules outlined in RR 2025-4.**

### Background:

The Family and Medical Leave Act of 1993 (FMLA) is a federal law which generally permits eligible employees to take unpaid, job-protected leave under certain circumstances, including the need to care for an immediate family member with a serious health condition, or because of an employee’s own serious health condition.

Several states have implemented and administer their own state paid family and medical leave (SPFML) programs to provide wage replacement for employees who need to take time off from work due to their own non-occupational injuries, illnesses, or medical conditions, or to care for a family member due to the family member’s serious health condition or other specific circumstances. These states generally require that in-state employers and employees make contributions to the SPFML fund to provide these family and medical leave benefits.

### The Details:

In RR 2025-4, the IRS provided a number of scenarios dealing with the taxation of employer and employee paid SPFML premiums, the taxation of SPFML benefits received by employees, as well as the employer reporting requirements when SPFML benefits are paid to its employees. Among other scenarios, the guidance addresses the taxation of mandatory employee contributions when voluntarily paid by the employer on behalf of the employee, which RR 2025-4 refers to as “employer pick-up of employee contributions.” Additionally, the IRS guidance differentiates the taxation of benefits received for family leave from those received for the employee’s medical leave for their own health condition.

**Note:** RR 2025-4 only addressed SPFML programs and stated as follows:

“This revenue ruling does not address the Federal tax treatment of employers’ or employees’ contributions to private or self-insured family or medical leave plans, or the amounts received by the employees as benefits under these plans.”

Some of the highlights of RR 2025-4 are as follows:

### Employee SPFML Premiums Paid by Employer:

- Employee required SPFML premium amounts paid by an employer are considered taxable income to the employee for federal income tax and employment tax (e.g., Social Security) regardless of state income tax treatment.

- The employee required premium amounts voluntarily paid by the employer must be included on the employee's Form W-2 in Boxes 1, 3 and 5.
- Employer required premium amounts are considered state taxes. Such amounts are not taxable income to the employee.
- The employer has no federal information reporting requirements with respect to employer mandatory SPFML contributions.

#### **State Family Leave Benefits Paid to Employee:**

- Amounts paid to the employee under the **family leave** provisions of the SPFML are to be included in the employee's federal gross income, regardless of whether the employee or employer paid the premiums.
- SPFML benefits paid to the employee are NOT considered wages for federal employment taxes, such as Social Security and Medicare.
- The state paying the benefits to the employee must file with the IRS and furnish to the employee a Form 1099.

#### **State Medical Leave Benefits Paid to Employee:**

- Amounts paid to the employee under the **medical leave** provisions of the SPFML are to be included in the employee's federal gross income **UNLESS** "time off from work is necessary because of the individual's own serious health condition, and the medical leave benefits that are paid...are, in fact paid as a result of the employee's own serious health condition."
- Amounts paid for the employee's own serious health condition are treated as amounts received through accident or health insurance. The taxation of such benefits are dependent on the percent of the premium paid by the employer and employee.
- Employees must include in their federal gross income, any amount received attributable to the employer state mandated premium percentage. For example, if an employer is required to pay 40 percent of the premium, then 40 percent of the amount received by the employee is subject to federal income, as well as employment taxes.
- Amounts received by the employee attributable to employee contribution percentage in addition to any percentage of employee contribution, as well as any voluntary payment by the employer of the employee contribution required by the employee, are excluded from the employee's federal gross income. For example, the state mandates the employer pays 40 percent of the SPFML premium and the employee portion is 60 percent. However, the employer voluntarily pays half of the employee's portion totaling 30 percent. The employee would still only be taxed on the state employer premium mandated amount of 40 percent.

#### **Next Steps:**

Employers operating in states with Paid Family Leave provisions should carefully review [Revenue Ruling 2025-4](#) with their legal and/or tax advisors. Useful summaries of the guidance are contained on pages 29 and 30.

#### **Have Questions?**

If you are an ADP client, contact your dedicated service professional with any questions.

## **ADP Compliance Resources**

ADP maintains a staff of dedicated professionals who carefully monitor federal and state legislative and regulatory measures affecting employment-related human resource, payroll, tax and benefits administration, and help ensure that ADP systems are updated as relevant laws evolve. For the latest on how federal and state tax law changes may impact your business, visit the ADP *Eye on Washington* Web page located at [www.adp.com/regulatorynews](http://www.adp.com/regulatorynews).

ADP is committed to assisting businesses with increased compliance requirements resulting from rapidly evolving legislation. Our goal is to help minimize your administrative burden across the entire spectrum of employment-related payroll, tax, HR and benefits, so that you can focus on running your business. This information is provided as a courtesy to assist in your understanding of the impact of certain regulatory requirements and should not be construed as tax or legal advice. Such information is by nature subject to revision and may not be the most current information available. ADP encourages readers to consult with appropriate legal and/or tax advisors. Please be advised that calls to and from ADP may be monitored or recorded.

If you have any questions regarding our services, please call 855-466-0790.