BENEFITSCAPE™

PFML TAX CREDITS EXPANDED

New Tax Rules. New Funding Opportunities.

IRC Section 45S Credits Made Permanent. Expanded from 2026.

Paid Family and Medical Leave [PFML] plays an increasingly important role in the employment landscape, and **Section 45S** is designed to help fund that investment through federal tax credits of **up to 25% of qualifying leave wages or insurance premiums.**

On July 4, 2025, new legislation not only made these **Section 45S** tax credits permanent but also expanded their applicability and potential value for employers from 2026.

They cover **parental leave, short-term disability, and family caregiving** — with qualification depending on the purpose of the leave, policy terms, and employee eligibility.

What Changed — and Why It Matters

Premiums can now qualify — even when no leave wages are paid. Previously, credits were based on qualifying wages paid during leave. From 2026, qualifying PFML premiums can also generate credits — even when qualifying employees take no leave during the year.

The credits are now permanent. Employers can now consider **Section 45S** as part of their ongoing PFML funding and benefits strategy, rather than a temporary tax incentive.

Employees can qualify sooner. Employers may elect to include eligible employees after six months of service rather than one year.

State-mandated leave can now count toward qualification. Though excluded from credit calculations, leave required by state or local law can now count toward employer qualification. This makes the distinction between mandated and additional employer-funded benefits important to capture.

BeneSphere

Embedded Expertise. End-to-End Execution

Powered by BENEFITSCAPE, **BeneSphere**™ is a system-agnostic RegTech solution for benefits and compliance — including a stand-alone solution for end-to-end **Section 45S credit readiness, execution, and compliance.**

BeneSphere's embedded domain intelligence assembles and verifies policy, eligibility, and funding data for qualified tax advisors to assess potential credit value, compare wage and premium methods, and identify any program changes needed to qualify for **Section 45S** credits.

It then orchestrates ongoing data and workflows across the employer's end-to-end benefits supply chain and assembles an **audit-ready package of evidence** to support credit claims.

A continuous view of potential credit value, outstanding issues, and audit readiness is provided by **BeneSphere's live Section 45S dashboard.**

THE RESULT: Value that might otherwise go unclaimed — helping to fund PFML programs.

Scan here to request a PFML Credit Review
Explore your existing program's eligibility, potential credit value, and any changes needed to proceed.

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Section 45S at a Glance

WHAT CHANGED Expanded provisions apply to tax years beginning after December 31, 2025.

PROVISION	BEFORE 2026	NOW
Availability	Temporary credit, subject to extensions	Permanent
Basis for the credit	Qualifying employer-paid leave wages	Qualifying employer-paid leave wages or the qualifying portion of employer-paid PFML insurance premiums
Employee tenure	At least one year	Employer may elect six months
State or local mandated leave	Excluded when determining employer qualification and calculating credits	Can count toward employer qualification, but remains excluded from credit calculations
Employee weekly hours	No minimum-hours requirement	Employees must customarily work at least 20 hrs/week

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KEY REQUIREMENTS THAT REMAIN UNCHANGED

PROVISION	REQUIREMENT
Types of leave	Parental, medical (including qualifying short-term disability), family caregiving, and military-related leave.
Credit rate	12.5% – 25%, depending on wage replacement
Minimum wage replacement	At least 50% of regular wages
Minimum leave under the written policy	At least two weeks annually for qualifying full-time employees; prorated for qualifying part-time employees
Maximum leave covered under the wage method*	12 weeks per employee per tax year

* The premium method is based on qualifying insurance coverage, rather than leave wages actually paid

HOW WAGE REPLACEMENT DETERMINES THE CREDIT RATE

Wage replacement (%)	Credit rate
50%	12.5%
60%	15%
70%	17.5%
80%	20%
90%	22.5%
100%	25%

Credit rates rise from **12.5% at 50%** wage replacement to a maximum of **25% at 100%.** For insurance premiums, the rate reflects the wage replacement provided by the policy.

Only qualifying costs count.
Wages and premium portions attributable to state- or local-mandated benefits, nonqualifying leave, or nonqualifying employees are excluded.

Benefits Assurance

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