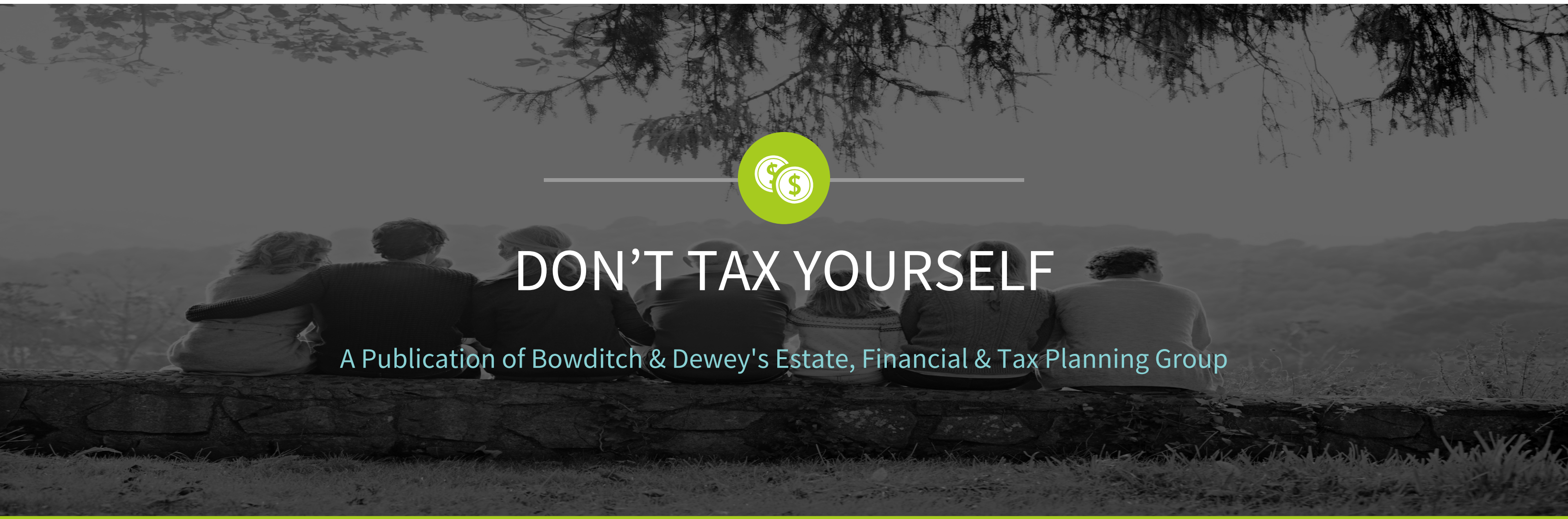

Income Tax and State Family Medical Leave Benefits

BY SCOTT C. CASHMAN • MAY 13, 2025

Earlier this year, the Internal Revenue Service issued long awaited guidance on the taxation of paid family medical leave. The revenue ruling is effective for payments received on or after January 1, 2025.

There has been uncertainty about the taxation of these relatively new benefits. Thirteen states and the District of Columbia have enacted paid family medical leave programs. In Massachusetts, eligible workers began receiving benefits beginning January 1, 2021. Benefits are typically funded with a combination of mandatory employee and employer contributions. The employer can deduct contributions as payment of an excise tax and employees can deduct contributions up to the limit for state and local income taxes assuming they itemize personal deductions.

At the time benefits became available, the Massachusetts Department of Revenue did not offer an opinion on the taxation, deferring to the IRS. However, the option to have tax withheld was given to the recipient when applying for benefits, leading many to conclude the benefits were taxable. We now have IRS guidance.

Generally, benefits received as paid family leave are taxable. Benefits received as medical leave may be partially tax free. The portion of medical leave benefits received, which are attributable to the employer contributions, would be taxable and the portion attributable to the employee contribution non-taxable.

Revenue ruling 2025-4 outlies multiple scenarios.

In 2025, it is expected that states will comply with this ruling via 1099 reporting.

In a previous client alert, Bowditch attorneys Danielle Lederman and Chelsie Vokes discussed 2025 changes to Massachusetts Paid Family Medical Leave.