

# Missed Opportunities to Expand Paid Leave and Caregiving Supports Through the Tax Code

JULY 2025

## Executive Summary

The lack of comprehensive paid family and medical leave is an urgent nationwide problem that affects 106 million workers across the country.<sup>1</sup> The need for action is long overdue. But rather than passing a comprehensive bill to create a national paid family and medical leave program, Congress's reconciliation bill uses a much narrower, business-focused tax code approach to extend a corporate tax credit that has failed working families.<sup>2</sup> In a bill that would strip health care and economic security from millions of people, Congress also extends and makes permanent Section 45S of the Internal Revenue Code—a corporate tax credit that, in practice, largely subsidizes companies already providing paid leave rather than expanding access to real paid family and medical leave that allows workers the freedom to decide what works best for them and their families. As documented by the National Partnership, Section 45S has proven ineffective at helping expand access to paid leave and is the wrong approach at a moment when over 70 percent of workers nationally do not have access to this critical benefit, including those who need it most: women, people of color, and low-wage earners.<sup>3</sup>

Failure to act on paid leave has kept workers — especially women workers — on the workplace sidelines, moving in and out of the workforce to navigate disruptions associated with caregiving needs or responsibilities. A lack of progress on women's labor force participation not only harms families but also harms our economy by reducing our overall economic growth.<sup>4</sup> Bipartisan interest in workers' access to caregiving benefits and paid leave is not surprising given the universal need for paid leave and its enormous popularity.<sup>5</sup> Fourteen states, including the District of Columbia,

already have successful paid leave programs. Federal policy should build on this momentum by investing in workers directly, not subsidizing wealthy corporations.

Congress, first and foremost, should be prioritizing making affirmative investments in a comprehensive paid leave program. But short of that, when considering provisions related to leave in the tax code, it should prioritize tax reforms that will grow the economy by generating revenue in a fair and equitable way and investing in workers and caregivers. While using the tax code to advance care policies has significant limitations and drawbacks, it could be used to support working caregivers and their loved ones and lay the foundation for a national, comprehensive paid leave program. However, to accomplish this goal, any reforms should fill existing gaps and do no harm—which means expanding paid leave access to cover workers who currently do not have leave and ensuring that workers have the flexibility to access different types of leave for the amount of time they need with adequate income support.

The Section 45S paid family and medical leave tax credit is not the answer. Rather than address existing gaps in paid leave access in a meaningful way, this tax credit is focused on subsidizing wealthy corporations that can already afford to provide paid leave benefits. A better approach would provide support directly to individual workers or states or target small businesses, who often do not have the same resources as large corporations to pay for paid leave. Congress could also provide additional relief to caregivers; Americans' unpaid caregiving is worth more than \$1.1 trillion annually, with women doing nearly two-thirds of the work.<sup>6</sup>

The following individual, business, state and caregiver tax credit approaches are steps forward that could make a difference. These targeted reforms would:

- Expand access for workers who lack leave today
- Provide immediate financial relief during family crises
- Support small businesses in offering competitive benefits
- Advance gender and racial equity in the workplace

Congress should enact targeted reforms, like those discussed below, that directly help workers and caregivers and incentivize meaningful employer action.

## I. Individual Tax Credits

Congress must invest in individuals, not just businesses, ensuring workers have the flexibility and freedom to make decisions about their own leave. An advanceable **Refundable Wage Replacement Credit** and **Lump Sum Credit** are two possible approaches that would require similarly significant investments as a social insurance model and would focus on getting income support directly to workers. Providing additional support for workers in state paid leave programs or creating a refundable tax credit to offset the cost of health insurance premiums for employees while they are on leave are other more incremental approaches that could support workers and build towards a universal program.

### A. Refundable Wage Replacement Credit

- Up to \$4,000 monthly for 12 weeks of eligible leave
- Progressive wage replacement structure benefiting low-wage workers most
- Based on FAMILY Act eligibility requirements<sup>7</sup>
- As an advanceable tax credit, would provide economic support when most needed

*An individual, refundable wage replacement credit would provide workers with needed financial relief. Real-time access to financial relief, however, would be challenging, likely reducing leave-taking among low-wage workers unless this was structured as an advanceable tax credit.*

### B. Lump Sum Credit

- Up to \$6,000 refundable credit for needing to take family and medical leave that year
- Help offset leave-related costs for all income levels; provide a larger share of income for low-wage workers
- Based on FAMILY Act eligibility requirements
- As an advanceable tax credit, would provide economic support when most needed

*An individual, refundable lump sum credit would not replace lost income in real time but rather acknowledge the additional financial support workers need when they have to take leave during the year. The lump sum nature of the credit could ease administrative burdens but also comes with tradeoffs: some workers might not receive as much as they would under other paid leave programs with a weekly benefit, while for some extremely*

*low wage workers the flat amount would likely represent a larger share of income, potentially well above a 100 percent wage replacement rate. Some guardrails might include requiring a smaller total lump sum; a minimum number of hours or weeks of leave; different lump sums for different income percentiles; or capping the lump sum at some percentage of the workers' income, which starts to mirror the individual tax credit described above.*

### **C. Refundable Credits for Paid Leave Contributions and Health Insurance Premiums**

Additional ideas for individual tax credits that require further study include refundable tax credits that would support workers by offsetting the costs of their employee-side payroll contributions in states with paid leave social insurance programs as well as offsetting the cost of health insurance premiums that employees pay while on leave. The tax credit for workers in state paid leave programs could be available to all employees, have an income threshold, or have a sliding scale based on income. Benefits in addition to supporting workers in these states would be encouraging more states to pass paid leave policies, which is the best way to increase access to paid leave in the absence of a federal policy. Health insurance premium support would be a refundable tax credit that offsets the cost of health insurance premiums that employees pay while on leave, whether the leave is paid or unpaid. It would be available to any employee taking leave under the FMLA, a state FMLA law or a state paid family and medical leave program.

## **II. More Effective Business Incentives**

Tax credits targeting businesses should be focused on reaching workers who are less likely to have access to paid leave and incentivizing new leave policies with minimum standards that ensure workers' access to comprehensive leave with strong wage replacement for a sufficient number of weeks. Focusing specifically on small businesses could be one strategy to target businesses most in need of help providing leave. Only 19 percent of workers working for small employers have access to paid family leave through their employer, and only 29 percent have access to paid medical leave.<sup>8</sup> This leaves tens of millions of workers at small businesses needing this crucial support. In recent polling, four out of five small business owners wanted to provide more paid leave than they can currently afford, illustrating the importance of this type of credit.<sup>9</sup> Additionally, by defining the scope of programs eligible for reimbursement, tax credits could help make targeted improvements for inclusive families and include job

protection, maintenance of health insurance and anti-retaliation provisions, even through a reconciliation vehicle.

### **A. Small Business Tax Credit for Wage Replacement**

- An advanceable credit covering two-thirds to 100 percent of wages, up to a cap, for employees on leave, similar to the model used in the Families First Coronavirus Response Act.<sup>10</sup>
- Exclusively for businesses under 50 employees, with revenue below a certain amount.
- Minimum eligibility requirements, including provision of 12 weeks of paid leave, a minimum 50 percent wage replacement and paid leave for reasons similar to the FAMILY Act.
- Targets employers who most need support to provide leave benefits.
- Could also include an employer mandate requiring all employers provide paid leave (separate legislation would be needed if the tax credit passes through reconciliation).

### **B. Small Business Staffing Support**

- A quarterly credit for small businesses who incur additional expenses (outside of direct wage replacement) while employees are on leave, such as training and overtime costs
- Exclusively for businesses under 50 employees, with revenue below a specified amount.
- Has minimum eligibility requirements, including provision of 12 weeks of paid leave, a minimum 50 percent wage replacement and paid leave for reasons similar to the FAMILY Act.

### **C. Health Insurance Premium Support Credit**

An additional idea for small business tax credits that requires further study would be a small business health insurance premium support credit. This would be a quarterly credit for small businesses that provide employer-sponsored health insurance and continue to provide that insurance while their employees are on leave. It would be exclusively for businesses under 50 employees, with revenue below a specified amount and include minimum eligibility requirements, including provision of 12 weeks of paid leave, a

minimum 50 percent wage replacement and paid leave for reasons similar to the FAMILY Act.

### **III. Supports for State Paid Leave Programs**

For over 20 years, states have been innovating and leading the way on paid leave policy, giving millions of workers across the country access to paid family and medical leave. Supporting existing state programs, and encouraging new states to adopt paid leave policies, is key to both continuing to expand access to paid leave for more workers and increasing the urgency of federal action. This credit was proposed by Rep. Jimmy Gomez (D-CA) as part of his amendment to the 45S tax credit during the House Ways & Means Committee's budget reconciliation markup and could be further explored.

#### **State Paid Leave Program Tax Credits**

- Reimbursement to states for a portion of benefits paid to employees
- Parameters can be adjusted regarding the tax credit amount, as well as what the requirements are of the state program (i.e. purposes of leave, duration, wage replacement)

### **IV. Caregiver Support**

A caregiver tax credit would provide financial assistance to family caregivers to offset the costs of caring for loved ones.

#### **Refundable Caregiver Credit**

- Provides financial assistance to family caregivers to offset costs of caring for loved ones
- Modeled on the bipartisan Credit for Caring Act of 2025,<sup>11</sup> which provides a credit up to \$5,000 annually per caregiver for qualified care recipients to cover care-related expenses such as equipment, home health services, lost wages for family caregivers and more. The credit phases out for middle earners (\$75K+ individual, \$150K+ joint).
- This proposal builds on the Credit for Caring Act to make the credit fully refundable which ensures low-wage workers can fully benefit.

*A caregiver tax credit cannot substitute for access to real-time paid family and medical leave. This model would instead provide financial assistance to family caregivers. Creating*

*a fully refundable credit will ensure that low-income caregivers — disproportionately women, people of color, and disabled workers — are better able to access the credit. The phase out ensures the resources are best directed at people with low and middle incomes.*

## Conclusion

Instead of Congress's ineffectual decision to expand and extend Section 45S, these alternatives would prioritize workers over corporate subsidies in considering federal tax policy related to leave and caregiving needs. While comprehensive paid leave legislation remains the gold standard, there are other policy solutions available, including some incremental reforms that offer a pragmatic path forward that will serve families and expand access to leave while also building support for paid family and medical leave as a moral and economic imperative.

---

<sup>1</sup> Jessica Mason, When We Fight, We Win – Paid Sick Days and Paid Family Leave, Sep 21, 2023, <https://nationalpartnership.org/when-we-fight-we-win-paid-sick-days-and-paid-family-leave/>. The most recent data show that in 2023, 27 percent of civilian workers had access to paid family and medical leave and in 2024, 43 percent had access to temporary disability insurance, resulting in 106 million workers without paid family leave and 83 million without temporary disability insurance per National Partnership calculations based on Bureau of Labor Statistics data.

<sup>2</sup> H.R.1 - One Big Beautiful Bill Act, 119th Congress (2025-2026), available at <https://www.congress.gov/bill/119th-congress/house-bill/1/text>

<sup>3</sup> National Partnership for Women & Families, Employer Paid Leave Tax Credits Will Not Close Gaps in Access to Paid Leave: Why the 45S Tax Credit Should Expire, Feb. 2025, available at <https://nationalpartnership.org/wp-content/uploads/2023/02/employer-paid-leave-tax-credits-will-not-close-gaps-in-access-to-paid-leave.pdf>

<sup>4</sup> Jocelyn Frye, Areeba Haider and Katherine Gallagher Robbins, Unfinished Policy Agenda for Women in the Economy Cost the U.S. \$6.7 Trillion in GDP Gains Over a Decade, Sept. 2024, available at <https://nationalpartnership.org/report/unfinished-policy-agenda-women-in-economy-cost-trillions-in-gdp/>

<sup>5</sup> Horowitz, J. M., Parker, K., Graf, N. & Livingston, G.. (2017, March). Americans Widely Support Paid Family and Medical Leave, but Differ Over Specific Policies. Retrieved 1 July 2025 from Pew Research Center website:

<https://www.pewresearch.org/social-trends/2017/03/23/support-for-paid-leave-policies/>; Bennett, B. (2022, September). Americans Overwhelmingly Support Paid Family and Medical Leave.. Retrieved 1 July 2025 from Navigator Research website:

<https://navigatorresearch.org/americans-overwhelmingly-support-paid-family-and-medical-leave/>

<sup>6</sup> Gallagher Robbins, K. and Mason, J, If Americans Were Paid For Their Caregiving, They Would Make More Than \$1.1 Trillion, June 26, 2025, <https://nationalpartnership.org/if-americans-were-paid-for-their-caregiving-they-would-make-more-than-1-1-trillion/>

<sup>7</sup> S.1714/H.R.3481 - FAMILY Act, 118th Congress (2023-2024), available at <https://www.congress.gov/bill/118th-congress/senate-bill/1714>

<sup>8</sup> Mason, *supra* note 1.

<sup>9</sup> National Partnership for Women & Families, Small Businesses Support a National Paid Family and Medical Leave Program, Oct. 2024, available at <https://nationalpartnership.org/report/small-businesses-support-national-paid-family-medical-leave-program/>

<sup>10</sup> Internal Revenue Service. (2025, May). *Covid-19 Related Tax credits for paid leave provided by small and midsize businesses FAQs*. Retrieved 1 July 2025, from [https://www.irs.gov/newsroom/covid-19-related-tax-credits-for-paid-leave-provided-by-small-and-midsize-businesses-faqs#:~:text=The%20Families%20First%20Coronavirus%20Response%20Act%20\(the%20%22FFCRA%22\),for%20leave%20related%20to%20COVID%2D](https://www.irs.gov/newsroom/covid-19-related-tax-credits-for-paid-leave-provided-by-small-and-midsize-businesses-faqs#:~:text=The%20Families%20First%20Coronavirus%20Response%20Act%20(the%20%22FFCRA%22),for%20leave%20related%20to%20COVID%2D)

<sup>11</sup> S.925/H.R.2036 - Credit for Caring Act of 2025, 119th Congress (2025-2026), available at <https://www.congress.gov/bill/119th-congress/senate-bill/925>

---

The National Partnership for Women & Families is a nonprofit, nonpartisan advocacy group dedicated to promoting fairness in the workplace, reproductive health and rights, access to quality, affordable health care and policies that help all people meet the dual demands of work and family. More information is available at [NationalPartnership.org](https://NationalPartnership.org).

© 2019 National Partnership for Women & Families. All rights reserved.