

# Benefits of Offering Paid Parental Leave Include Significant Tax Credits



**Gene Marks**

CPA, Columnist, and Host

## **Gene Marks:**

Hi everybody, this is Gene Marks and welcome to this week's episode of "On the Mark". And let's get right to it. This past week, The Wall Street Journal reported on a new study that was released by the Society for Human Resource Management. The society surveyed 3,000 employers about paid parental leave, and what they found in their survey was that 35% of those employers offer paid parental leave, paid maternity leave. But that number was down significantly from 53% in 2020.

Also, the share of employers that are giving paid paternity leave for dads fell to 27% in 2022 from 44% in 2020. Now, you know, rising costs and a desire to return to pre-pandemic norms are some of the reasons that are cited for this trend. Listen. Parental leave policies can be pretty tricky.

You know, in in some countries like the UK and Japan, Germany, France, other countries around the world, parents, even fathers in some cases, are allowed to take as much as 12 months off after a child is born with part of that compensation being covered by the government. Unfortunately, here in the U.S., we have no national benefit like that.

I mean, federal law has the Family and Medical Leave Act where employees that work at small businesses that are with more than 50 employees can take up to 12 weeks of unpaid leave, and the business has to retain their job. But no paid leave, and that legislation is probably not going to change any time in the near future that I see.

A lot of that has been pushed down to the states, and according to the National Conference of State Legislatures, there are 11 states. Let me list them for you. California, Colorado, Connecticut, Delaware, Massachusetts, Maryland, New Jersey, New York, Oregon, Rhode Island, and Washington. Plus, the District of Columbia. They offer paid family and medical leave, all of which are funded through employee paid payroll taxes, and some are also partially funded by employer or paid payroll taxes.

But that's what the situation here is in the U.S. and it still creates a challenge for business owners. I mean, listen, there are some larger companies like, HP and Etsy, and Dropbox, and Netflix, and Lululemon that offer as much as six months or more of paid leave for both their primary and secondary caregivers, their employees.

But, you know, we're small businesses, right? I mean, these are larger companies. They can supposedly absorb the absence of those employees during a period of time. And, you know, for us as a small business owner, I mean, it's costly. And it's also extremely difficult for many small businesses to lose a key employee for an extended period of time.

But, you know, let's also realize that for our employees, parental leave can be a very important benefit. You know, because the time off is potentially needed to adjust to a significant personal change. So, you know, having to shoulder the responsibilities of a job during those first few weeks or months after birth can really be difficult.

It's a tricky issue, particularly if you're a small business. Right? We've got fewer resources. And, you know, there are other tricky questions that we have to answer. I mean, is it biased to offer paid leave to new parents? What about our employees that don't or can't have children? Is that fair to them? Is it fair to tell a new mother or father that, hey, you need them to be responsible for at least some of their work duties from home now that we know remote working is a valid option?

And, you know, how long can a small-business owner really keep a job open without our operations really being significantly impacted? And how long can we afford to cut a paycheck every week when no work is being done? So yeah, it's a tricky issue this parental leave, but it's an important benefit.

So, you know, even though it's a challenge, it's not insurmountable, and based on what I've seen from some of my smartest clients, I've got a few thoughts that may help you figure out what to do.

For starters, if you've got under 50 employees, you don't need to comply with the Family and Medical Leave Act. However, thanks to Section 45S – employer credit is what it's called, Section 45S employer credit, it's a relatively little-known tax rule. It was extended through 2025. If your business allows an employee to take the time off and you continue to pay at least half of their wages, you can receive a tax credit for up to 25% of the wages paid. So, that could really help with your cost.

So, consider offering some paid parental leave, cover at least 50% of their compensation, and take that Section 45S employer credit that can offset some of your costs. So, that's number one.

Speaking of tax benefits, you can deduct up to \$5,000 per year in contributions to a flexible spending account for your employee, and that employee can then use that money for childcare. It's not taxable to the employee either. So, even if an employee has to come back to work a little bit earlier, you could help them out with getting childcare in their home for their newborn or their small children.

Now, be aware, you know, there are limitations to this deduction. So, you want to actually consult with a professional about this or offer a professional to consult with your employees. Also, be aware your employees have some personal childcare tax credits available and they can't overlap with the flexible spending accounts that you're reimbursing.

So again, my recommendation is to fully take advantage of a flexible spending account and then your personal childcare tax credits. See if you can help your employees out by offering them the services of maybe your company accountant and to guide them through it.

Okay, you're also going to need to make some tough decisions because, like I mentioned earlier, there are concerns over bias and working from home, you know?

I believe a business should include parental leave as part of a company's paid time-off plan. That way, you can avoid any claims of bias from other employees if you do not have children. And you can, you know, it's also kind of addressing the issue for dads whether they can take time off or not. It's up to them if they want

to use PTO to do that. But, you know, be aware this is potentially controversial and could impact retaining and recruiting workers, particularly younger workers, which make up half of our workforce.

I mean, look, guys, the good news is that one of the many benefits of being a small employer is that you and I can be flexible, and we don't have to adhere to a rigid corporate policy. We can figure out an arrangement that works best for both us and our workers, whether they're working from home or returning to work gradually on a schedule that best suits us both. Right? So, we need to use that flexibility to our advantage. So, yeah, paid time off should be given to a new parent. I believe that regardless of your company size, it's not only the right thing to do, it's a necessary benefit to offer in this time of tight labor. If you do it the right way, even a small business like yours and mine, we can manage this. I know we can.

My name is Gene Marks. You've been listening to this week's episode of "On the Mark". I hope you have enjoyed it. If you've got any advice or comments or would like to suggest a guest for one of our Paychex thrive podcast, please visit us at [payx.me/thrivetopics](https://payx.me/thrivetopics). That's P-A-Y- X dot M-E/thrivetopics. Thanks for listening. I hope you got this information and found it helpful. I'll be back here next week with some other thoughts. Take care.

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