



Taxes and Paid Leave

Answers to common questions about state and federal taxes for individuals and employers under Minnesota Paid Leave.

Will Paid Leave benefits be taxed?

On January 15, 2025, the Internal Revenue Service (IRS) issued [Revenue Ruling 2025-4](#), which explains how the federal government will approach income taxes for premiums and benefits received from a program like Minnesota Paid Leave. For questions or comments on the guidance, please contact the IRS as directed here: [IRS guidance](#).

Minnesota follows federal law to determine when income is included or excluded from a taxpayer's gross income. This means Minnesota will generally conform to the IRS conclusions about federal gross income.

When Minnesotans apply for Paid Leave, they will have the option to withhold state and federal taxes from their weekly benefit. If an employee chooses this option, Minnesota Paid Leave will withhold 5% for state taxes and 10% for federal taxes. These are reductions set in Minnesota statute, not by the IRS.

How will premiums be treated on an employee's W-2?

For employers who pay the minimum employer contribution and collect premiums from employees, the employee portion of the contribution should be included on the employee's W-2 and does not reduce federal or state taxable wages.

For employers who pick up some or all of the employee contribution, the additional contribution should be reported as additional wages on the employee's W-2 and is subject to federal and state employment taxes.

Are premiums tax-deductible for the employee?

If an employer pays more than the required minimum share of the premium, this is additional compensation to the employee and is included in the employee's federal gross income as

wages. Employees may deduct this additional contribution by the employer as state income tax under §164, if the employee itemizes deductions on their federal income tax return. This deduction applies only to the extent that it does not exceed the state and local taxes (SALT) deduction limitation provided under §164(b)(6).

Are premiums tax-deductible for the employer?

Employers may deduct their premium contributions as an excise tax under §164.

If an employer pays more than the required minimum share of the premium, they can deduct this additional contribution as an ordinary and necessary business expense under §162. The employer must include this additional contribution as wages on the employee's Form W-2.

How are benefits taxed?

Paid Leave benefits are taxable, but the federal government treats family leave and medical leave differently for tax purposes.

How will family leave benefits be taxed?

Family leave benefits are not considered wages, so they are not subject to employment taxes. The benefits will be treated the same regardless of the amount of the premium covered by the employer. Paid Leave will report benefit amounts to the IRS annually and issue a 1099 to the person taking leave.

When Minnesotans apply for Paid Leave, they will have the option to withhold state and federal taxes from their weekly benefit.

How will medical leave benefits be taxed?

Medical leave benefits will be treated two different ways for federal tax purposes. Half of the benefit (the amount attributable to the employer contribution) will be treated as wages. The remaining half (the portion attributable to the employee contribution) are excluded from the employee's federal gross income and are not taxable.

The share of medical leave benefits that count as wages will be treated as third party sick pay, as described by the IRS in [notice 2015-6](#). This portion of the benefit is subject to federal income tax withholding, Social Security, Medicare and Federal Unemployment Tax Act (FUTA) taxes

The state will deduct Social Security and Medicare taxes from the claimant and send them to the IRS on the same frequency they send payroll tax deposits. The state will provide information about these payments to the employer on a frequent basis so the employer can pay their portion of Social Security and Medicare taxes. The employer must include these payments as wages on the W2 they issue to the employee.

What is the employer's responsibility for medical leave benefits?

The state will provide employers with information about taxable amounts on a frequent basis. Employers are required to include these amounts, along with any wages paid by the employer for other services, on form W2.