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March 19, 2026

## Special Edition: IRS Revenue Ruling 2025-4 and Paid Leave Oregon

### No New Costs for Employers

You may have heard that in early 2025, the Internal Revenue Service (IRS) issued tax guidance related to paid family and medical leave programs. Earlier this month, Governor Tina Kotek signed Senate Bill (SB) 1520, which addresses this issue for Paid Leave Oregon. If you have not been tracking this issue, there is no need to worry.



Employers on the state plan **do not need to take any action**. There are **no new costs to you** and **no changes** to how you report or pay Paid Leave Oregon contributions.

This update only applies to employers participating in the state-administered Paid Leave Oregon program. **Employers with equivalent plans should contact their plan administrator for guidance.**

## Background – Revenue Ruling 2025-4

In January 2025, the IRS issued Revenue Ruling 2025-4, clarifying how state paid family and medical leave programs must treat benefits for federal tax purposes.

Under the guidance, the portion of medical leave benefits funded by employer contributions could be treated as taxable wages and subject to payroll taxes such as Social Security and Medicare.

If implemented without changes to how Paid Leave Oregon tracks and allocates contributions, the ruling would have required Paid Leave Oregon or employers to:

- Pay and report federal payroll taxes on certain benefits
- Issue Forms W-2 related to Paid Leave medical benefits
- Make significant changes to payroll and reporting systems

It also would have created additional administrative complexity and costs for employers and the program.

## Oregon's solution

During the most recent legislative session, lawmakers passed SB 1520, which allows OED to comply with the IRS guidance using a simple accounting change. The Governor signed the bill into law earlier this month.

The law change allows Paid Leave Oregon to adopt administrative rules that direct money from employer and employee contributions to different types of leave.

Under this approach:

- Employee contributions will pay for all leave types, including medical leave benefits.
- Employer contributions will only pay for family leave and safe leave benefits.

Because employer contributions will not be used to pay medical leave benefits, those benefits will not be treated as taxable wages under federal law.

This allows Oregon to comply with the federal guidance while keeping the program operating the same way it does today.

## What this means for employers

For employers participating in the state-administered Paid Leave Oregon program:

- **No action is required.**
- **There are no new taxes or costs.**
- **You will continue reporting wages and contributions the same way you do today.**
- **You will not need to issue new tax forms related to Paid Leave benefits.**

From an employer perspective, your interaction with the program will not change.

Employers who have **equivalent plans** should contact their plan provider for guidance, as this legislative change applies only to the **state-administered program**.

## What happens next

Paid Leave Oregon will now begin implementing the accounting changes authorized in the new law. This includes adopting administrative rules and implementing some system changes behind the scenes by January 1, 2027.

Employers should not notice any changes in how the program operates. We will keep you informed if additional updates become available.

## Questions?

If you have questions about Paid Leave Oregon or how this federal guidance relates to your business, please visit **paidleave.oregon.gov** or contact our team for assistance. If you have an equivalent plan, contact your plan administrator.

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