

Tennessee Works Tax Act Creates Paid Family and Medical Leave Credit

Tennessee Paid Family and Medical Leave Credit

Effective for tax years ending on or after December 31, 2023, but before December 31, 2025, the Tennessee Works Tax Act, Public Chapter 377 (2023), creates a new temporary tax credit that is allowed against a taxpayer's combined franchise and excise tax liability. The Tennessee credit is based on the federal paid family and medical leave credit under Internal Revenue Code §45S.

Specifically, the Tennessee credit is equal to the federal credit taken under IRC §45S, but only with respect to compensation paid to qualifying employees in Tennessee during the tax period. For purposes of this credit, compensation is paid in Tennessee if it is paid to a qualifying employee whose payroll would be sourced to this state pursuant to the apportionment sourcing provisions under Tenn. Code Ann. § 67-4-2012.

The credit may be used to offset up to 50% of the combined franchise and excise tax liability shown on the return before the credit is taken, and any unused credit may be carried forward up to 25 years.

Federal Paid Family and Medical Leave Credit (IRC §45S)

Eligible employers that qualify for the federal paid family and medical leave credit receive a credit in an

amount equal to the applicable percentage of wages paid to qualifying employees during any period in which such employees are on family and medical leave. The base credit is 12.5% of the wages paid to the qualifying employee for family and medical leave. To qualify for the 12.5% credit, the employer must pay the employee at least 50% of the employee's regular wages. The credit amount increases in 0.25% increments until reaching a maximum credit of 25% of the wages paid when the employer pays 100% of the employee's regular wages for family and medical leave. The maximum amount of paid leave, per employee per year, for which a credit is allowed is 12 weeks.

The Department of Revenue does not administer the federal paid family and medical leave tax credit. Please contact your tax preparer or visit the Internal Revenue Service's [website](#) for more information on the federal credit.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents. Additional information is also available in the Department's [Franchise and Excise Tax Manual](#).

References

Pub. Ch. 377 (2023)