

The Oregon Employment Department seeks your support for Senate Bill 1520

IRS Ruling

In January 2025, the IRS issued Revenue Ruling 25-04 on the federal tax treatment of paid family and medical leave insurance benefits.

- Under the ruling, any portion of medical leave benefits *funded by employer contributions* is considered wages and subject to payroll taxes, like Social Security and Medicare
- The state would either have to pay these payroll taxes out of the Paid Leave Trust Fund or transfer them to employers, causing significant costs to customers or the program

SB 1520

SB 1520 would give the OED Director authority to adopt rules that bring Paid Leave Oregon in **compliance with tax reporting and withholding requirements** without additional cost to customers or the program. Specifically, the bill:

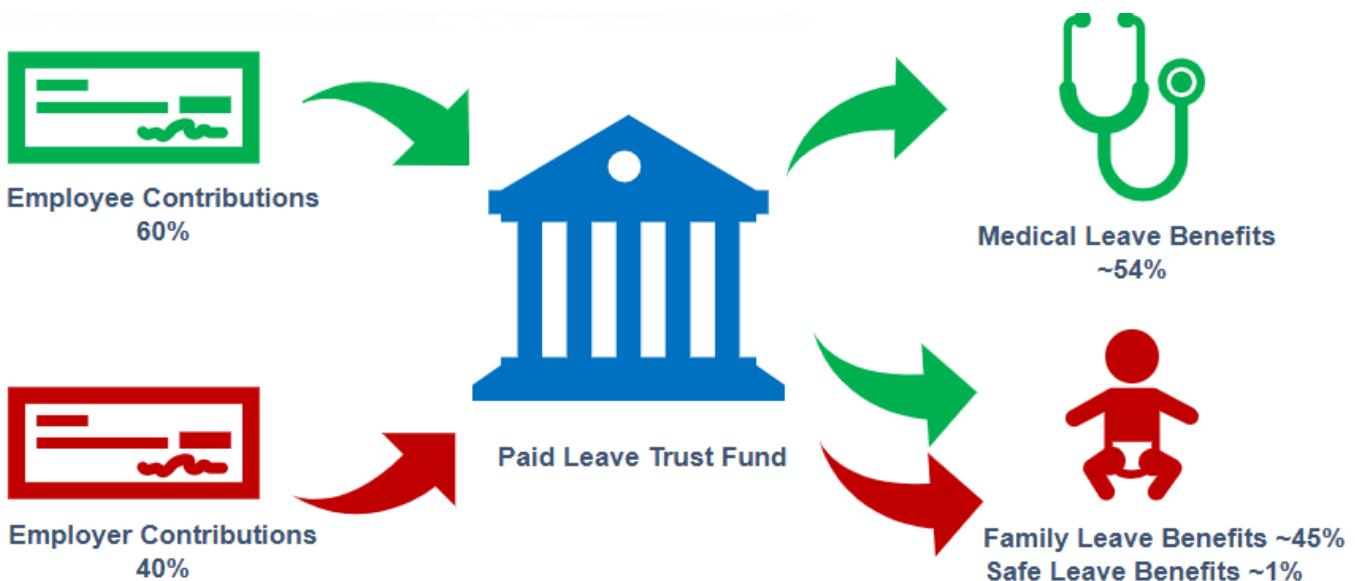
- Would give OED authority to adopt rules establishing an accounting system for moneys in the fund to ensure that employer contributions do not fund medical leave benefits
- Would not give OED authority to change the 1% maximum contribution rate, or the 60%-40% employee/employer split of the total contribution rate

Accounting System

Payroll tax requirements do not apply if only employee contributions are used to fund medical leave benefits. Employee contributions make up about 60% of Paid Leave's total revenue, while medical leave benefits account for about 54% of total benefit costs.

Under the new accounting system:

- Every dollar contributed to Paid Leave Oregon would be labeled by its source, meaning as an employer or employee contribution
- Paid Leave would only use employee contributions to pay medical leave benefits, while family and safe leave benefits could be paid by both employee and employer-labeled funds



Trust Fund Impact

SB 1520 is estimated to have minimal fiscal impact on the Paid Leave trust fund. The workload for implementing the accounting system can be absorbed by existing OED resources.

Next Steps

- Adopt administrative rules establishing the accounting system
- Establish an internal tracking system and update OED's accounting structure
- Make limited Frances system programming changes

Questions? Please contact [OED Legislative Affairs@employ.oregon.gov](mailto:OED_Legislative_Affairs@employ.oregon.gov)