

PAID FAMILY AND MEDICAL LEAVE (PFML) TAX GUIDE

TAXABILITY OF BENEFITS

The Internal Revenue Service (IRS) has not provided guidance on the taxability of PFML benefits. In the absence of IRS guidance, Prudential has taken the following approach to taxability of benefits:

- **Paid Family Leave (PFL):** Benefits are considered taxable income.
- **Paid Medical Leave (PML):** Benefit payments are not included in the employee's federal wages to the extent that the covered individual pays with after-tax contributions. Accordingly, taxation of benefits depends on the proportionate amount of premiums contributed to the plan by the employer versus the covered individual (commonly referred to as the contribution rate). Prudential relies on the employer to determine the contribution ratio.

This information is based on our understanding of tax law as of the date of this publication. Prudential reserves the right to change our approach to the handling of PFML programs should guidance from the IRS be received.

FEDERAL TAX WITHHOLDING

Paid Family Leave (PFL): Prudential will withhold Federal Income Tax (FIT) at a tax rate of 10% if requested by an employee. Federal Insurance Contributions Act (FICA) tax does not apply.

Paid Medical Leave (PML): Prudential will withhold tax as follows:

- Federal Insurance Contributions Act (FICA): The first six calendar months of sick pay that is paid to an employee by an employer or third-party payer is subject to FICA.
- FIT withholding options:
 - **Voluntary FIT:** Requests must be submitted in writing on a Form W-4S or its equivalent (e.g., tax notice on the claim form).
 - **Mandatory FIT:** Administrative Services Only (ASO) plans are subject to mandatory FIT withholding per the employee's Form W-4. In the



absence of the Form W-4, Prudential will withhold at a rate of single, 0.

STATE WITHHOLDING

Prudential withholds State Income Tax (SIT) only if requested by the employer at the plan level. The employer must provide the dollar amount, frequency, and the state code for SIT withholding at the time of the claim submission. If SIT is withheld for FICA Match employers, it is reported by Prudential under Prudential's EIN. Note that voluntary state withholding is available for NY PFL.

PRUDENTIAL'S TAX SERVICES

Paid Family Leave (PFL): Prudential will report benefits on Form W-2, Wage and Tax Statement, as federal and state income (if applicable).

Paid Medical Leave (PML): Prudential will report benefits on Form W-2, Wage and Tax Statement as taxable or non-taxable in accordance with the contribution ratio.

Additionally, for PML, Prudential will provide the following tax services:

- **FICA-Match Service:** Prudential is responsible for withholding and depositing the employee's portion of FICA and any federal income tax (FIT) to the IRS under Prudential's Employer Identification Number (EIN). In addition, Prudential is responsible for matching the employer's portion of FICA under Prudential's EIN.

With FICA-Match Service, the employer is responsible for any applicable federal or state unemployment tax. Prudential is responsible for all necessary and applicable state filing and the production and distribution of Forms W-2 and W-2c under Prudential's EIN.

Tax services are not available for our Advice-to-Pay (ATP) customers.

This document provides an overview of the tax reporting and withholding treatment of PFML benefits. It is provided for informational purposes only and should not be construed as tax advice. Employers seeking resolution of specific legal or business issues, questions, or concerns regarding this topic should consult their own attorney tax advisors; and employees should continue to consult their employers' Human Resources or other employment benefits department for guidance on the application of any law, rule, or regulation.

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