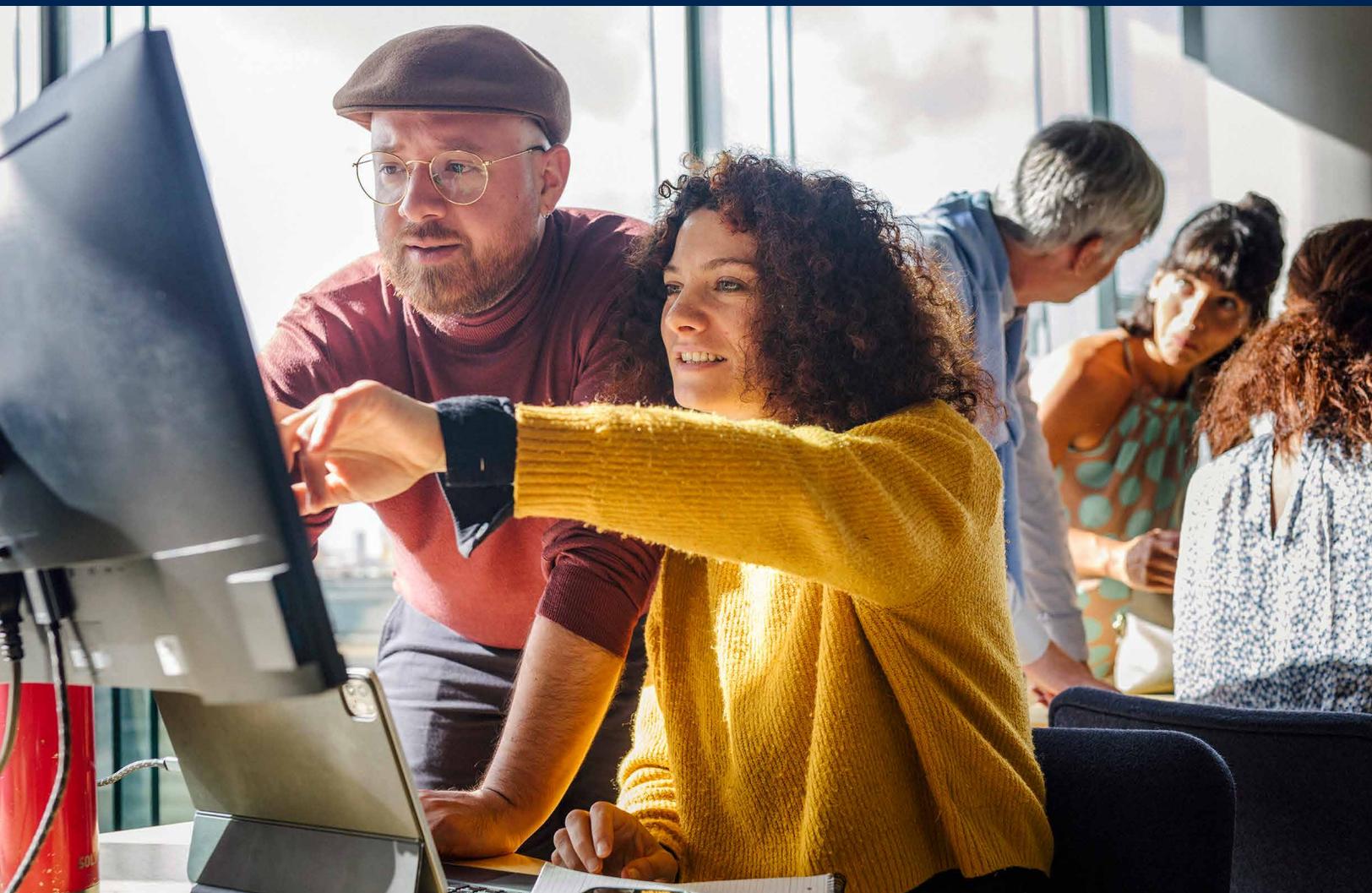




U.S. Chamber of Commerce

2025 Tax Guide

Employer Incentives for Workforce Support and Benefits



Overview

The 2025 tax guides offer educational information on potential tax credits and deductions accessible to employers regarding their workforce. These benefits may be available for employers providing childcare to employees, hiring individuals encountering specific barriers to employment, establishing accessible workplaces, and offering various benefits such as deferred compensation and other welfare benefit plans to employees for the 2025 tax year.

Update: On July 4, 2025, President Trump signed the One Big Beautiful Bill Act (OBBBA) into law, averting the largest automatic tax increase in American history. Certain employer related tax credits and deductions were extended, enhanced, and/or updated. Although most of these changes are not effective until the 2026 tax year, these tax guides highlight the relevant updates.

The U.S. Chamber does not provide legal or tax advice. Please consult an attorney or a qualified tax professional for more information on or assistance with any of the tax credits or deductions discussed below.

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Differential wage payment credit

The differential wage payment credit, or the employer wage credit for employees who are active-duty members of the uniformed services, is an employer tax credit equal to 20% of the sum of eligible differential wage payments (not to exceed \$20,000) for each of the taxpayer's qualified employees.

What are the parameters?

To qualify as an eligible differential wage payment, the payment must meet both of the following requirements:

1. The payment is made by an employer to a qualified employee for any period during which the employee is performing service in the uniformed services of the United States while on active duty for a period of more than 30 days, and
2. The payment represents all or a portion of the wages the qualified employee would have received from the employer if the employee were performing services for the employer.

A qualified employee is a person who has been an employee for the 91-day period immediately preceding the period during which differential wage payments are made. Eligible differential wage payments are the sum of differential wage payments paid to an employee for the tax year, up to \$20,000.

Note: Tax-exempt organizations are not allowed to claim the differential wage payment credit.

How do I claim this credit?

The Differential Wage Payment Credit is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- [I.R.S. Form 8932](#), Credit for Employer Differential Wage Payments, and
- [I.R.S. Form 3800](#), General Business Tax Credit.

For more information about the Differential Wage Payment Credit, please see I.R.C. § 45P.

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Disabled access credit

The disabled access credit provides a non-refundable credit of up to \$5,000 for small businesses that incur expenditures for the purpose of providing access to persons with disabilities.

What are the parameters?

The Disabled Access Credit is available to eligible small businesses in the amount of 50% of “eligible access expenditures” that exceed \$250 but do not exceed \$10,250 for a taxable year. A business may take the credit each year that it makes an eligible access expenditure.

Who is eligible?

Only eligible small businesses that elect to claim the Disabled Access Credit are allowed to utilize this credit. In general, a business is considered an “eligible small business” for purposes of the Disabled Access Credit if the business has the following:

1. \$1 million or less in gross receipts for the preceding tax year.
2. Fewer full-time employees during the preceding tax year.

What are eligible access expenditures?

For purposes of this credit, “eligible access expenditures” are amounts paid or incurred by an eligible small business for the purpose of enabling the business to comply with the applicable requirements of the [Americans with Disabilities Act](#) of 1990 (ADA).

These include amounts paid or incurred to:

- Remove barriers that prevent a business from being accessible to, or usable by, individuals with disabilities (e.g., widening a doorway, installing a ramp).
- Provide qualified readers, taped texts, and other methods of making materials available to people with visual impairments (e.g., Braille, or audio).
- Provide qualified interpreters or other methods of making audio materials available to hearing-impaired individuals (e.g., sign language interpreters).
- Acquire or modify equipment or devices for individuals with disabilities.

Note: Expenditures must be reasonable and necessary to accomplish the above purposes. Expenses in connection with new construction are not eligible.

For an individual, a “disability” means:

- A physical or mental impairment that substantially limits one or more major life activities,
- A record of such an impairment, or
- Being regarded as having such an impairment.

How do I claim this credit?

This credit is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- [I.R.S. Form 8826](#), Disabled Access Credit, and
- [I.R.S. Form 3800](#), General Business Tax Credit

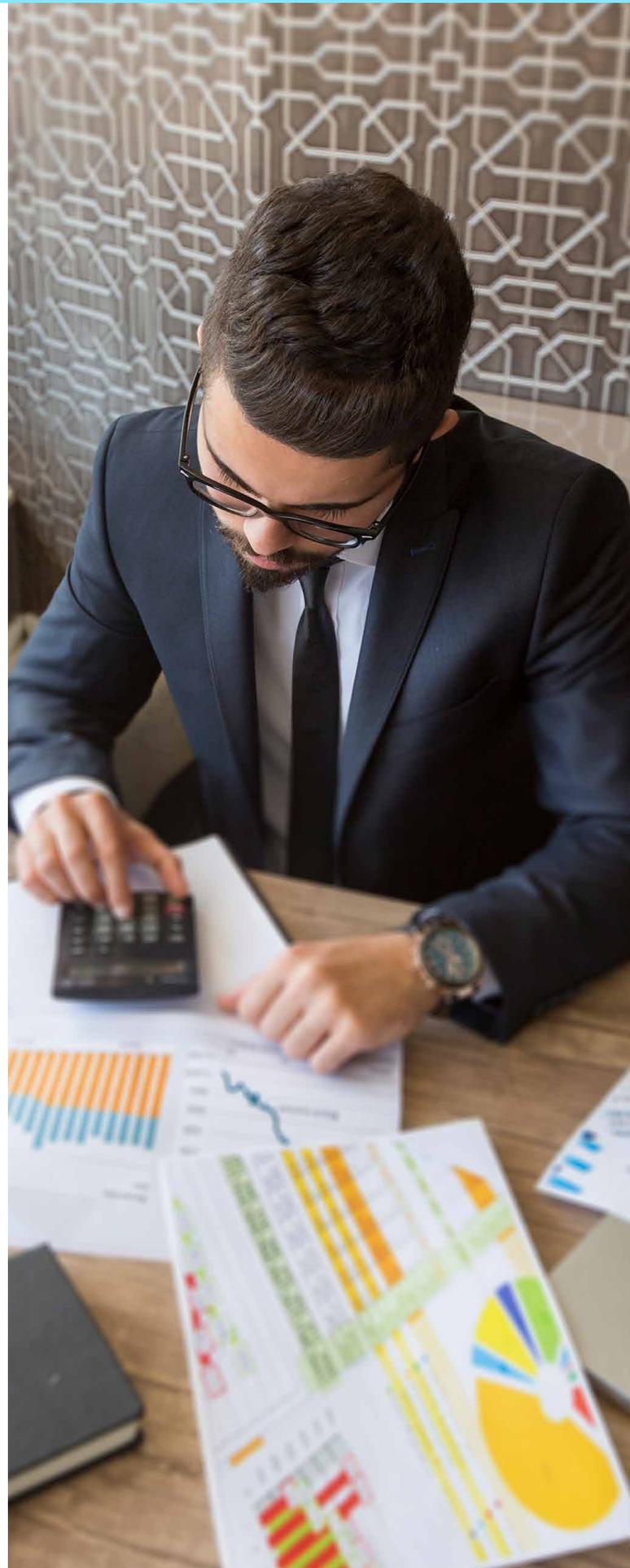
Interaction with the architectural barrier removal tax deduction

Notably, if a business meets the above requirements with respect to the removal of barriers and the amount of the business expenses paid or incurred exceeds the maximum amount allowed for the Disabled Access Credit, it may be able to also claim the [Architectural Barrier Removal Tax Deduction](#). In order to claim both the credit and deduction, the business must reduce the amount of the deduction by the amount of the credit claimed.

To learn more, refer to the following helpful resources:

- [I.R.C. § 44](#)
- [Tax Benefits for Businesses Who Have Employees with Disabilities](#)

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Employer credit for paid family and medical leave

The employer credit for paid family and medical leave is a tax credit for employers who provide paid family and medical leave to their employees. Eligible employers may claim the credit, which is 25% of wages paid to qualifying employees while on family and medical leave.

2026 Update: Prior to OBBBA, the Employer Credit for Paid Family and Medical Leave was a temporary credit set to expire at the end of 2025. OBBBA modified the eligibility requirements and made the credit permanent. The changes to this tax credit are effective for tax years starting January 1, 2026 and are intended to be more attractive and easier for employers to utilize. Below, we highlight some of the key changes to the tax credit.

What are the parameters?

The Employer Credit for Paid Family and Medical Leave is an employer tax credit that is determined by taking the applicable percentage of the amount of wages paid to qualifying employees on qualifying leave. The applicable percentage of the tax credit is between 12.5% to 25% depending on the rate of payment for the leave under the employer's policy (e.g., the applicable percentage is 12.5% if the employee is paid 50% of their salary while on leave).

OBBBA update

Effective Jan. 1, 2026, employers may use a new premium-based method added by OBBBA to calculate this credit. The new premium-based method calculates this credit as a percentage of insurance premiums paid or incurred by the employer, rather than wages paid. Employers must maintain an insurance policy providing paid family and medical leave to claim the credit. Notably, employees are not required to take leave in order for employers to utilize this method.

What is an eligible employer?

An **eligible employer** is an employer with a **written policy** in place that provides:

- Paid family and medical leave of at least two weeks (annually) to all qualifying employees who work full time (prorated for employees who work part time).
- A rate of payment that is 50% or more of the wages normally paid to the qualifying employee.
- If the employer employs one or more qualifying employees who are not covered by the Family Medical Leave Act (FMLA), the policy must also include "non-inference" language.

Who is a qualifying employee?

A qualifying employee is generally an employee who:

- has been employed by the employer for 1 year or more (or, new in 2026, at the election of the employer, for not less than 6 months), and
- who, for the preceding year, had compensation, (new in 2026, as determined on an annualized basis (pro-rata for part-time employees)), of not more than \$93,000 (for compensation paid in 2024) and \$96,000 (for compensation paid in 2025).

Required leave under state or local law

Old Rule: For tax years prior to Jan. 1, 2026, any leave that is paid by a state or local government or required by state or local law is not taken into account for any purpose in determining the amount of paid family and medical leave provided by the employer.

New in 2026: Paid family and medical leave required by state or local laws is counted towards determining the amount of paid family and medical leave provided by the employer. However, the leave required by state or local laws is not counted towards the amount of the credit.

How do I claim this credit?

The Employer Credit for Paid Family and Medical Leave is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- [I.R.S. Form 8994](#), Employer Credit for Paid Family and Medical Leave, and
- [I.R.S. Form 3800](#), General Business Tax Credit.

To learn more, refer to the following helpful resources:

- [I.R.C. § 45S](#)
- [Section 45S Employer Credit for Paid Family and Medical Leave FAQs](#)

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Employer-provided child care credit

The employer-provided child care credit is an employer tax credit that encourages employers to provide child care services for their employees. Subject to a limitation amount, employers are able to claim a credit equal to a percentage of their qualified child care expenses.

2026 Update: OBBBA enhanced the Employer-Provided Child Care Credit for tax years starting after December 31, 2025. The enhancements include an increased credit percentage and limitation, enhanced benefits for eligible small businesses, the ability to use a third-party intermediary to find child care services, and more flexible ownership requirements. Please note, that the old rules apply for all tax years before January 1, 2026, which includes the 2025 tax year. This resource is not intended to be tax advice. Please consult a qualified tax professional with any questions or assistance.

What are the parameters?

The Employer-Provided Child Care Credit was designed to encourage businesses to invest in child care support for their employees. In general, the employer-provided child care credit allows businesses to claim a credit equal to a percentage of their qualified child care expenses (subject to a limitation amount). Qualified child care expenses include:

- Costs associated with building or acquiring property used as the employer's child care facility,
- Operating costs of a qualified child care facility made by the employer, such as, amounts paid to support child care workers through training, or providing increased compensation to employees with higher levels of child care training, and
- Under a contract with a qualified child care facility to provide child care services to employees, or starting in 2026, under a contract with an intermediate entity that contracts with one or more qualified child care facilities to provide child care services.

Employers may also claim a credit equal to 10% of the employer's qualified child care resource and referral expenditures.

How to calculate the credit?

Historically, the credit allowed businesses of all sizes and industries to claim a nonrefundable tax credit up to \$150,000 annually, covering 25% of qualified child care expenses and 10% of resource and referral expenses.

OBBBA update:

Starting January 1, 2026, all sized businesses will be eligible to claim a credit up to \$400,000 annually, covering 40% of qualified child care expenses. Eligible small businesses* will be able to claim a credit up to \$500,000 annually, covering 50% of qualified child care expenses.

*An eligible small business is generally defined as a business that has less than \$31 million in average annual gross receipts over the last five years (adjusted for inflation).

Employer-Provided Child Care Credit Limits	Before Jan. 1, 2026	After Dec. 31, 2025
Applicable % for all businesses	25%	40%
Applicable % for eligible small businesses	N/A	50%
Credit limit for all businesses	\$150,000	\$400,000
Credit limit for eligible small businesses	N/A	\$500,000

This chart compares the old law (prior to 2026) and the new law as provided by OBBBA (post 2025)

Other notable enhancements

The enhanced credit also allows businesses to jointly own or operate a child care facility and/or use a third-party intermediary to help provide child care services for employees. Further details on these new rules will be included in future guidance or regulations.

How do I claim this credit?

This credit is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- [I.R.S. Form 8882](#), Credit for Employer-Provided Child Care Facilities and Services, and
- [I.R.S. Form 3800](#), General Business Tax Credit.

To learn more about the Employer-Provided Child Care Credit, please refer to the following resources:

- I.R.C. § 45F,
- [Employer-Provided Child Care Credit](#)

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Employer-provided qualified educational assistance programs

Employer-provided educational assistance programs under I.R.C. § 127 (127 Plans) allow employers to contribute up to \$5,250 annually per eligible employee toward educational assistance benefits (e.g., tuition, student loan repayment, books). Employees receive such amounts tax-free, and employers may deduct such amount as a business expense under I.R.C. § 162.

OBBBA Update: 127 Plans were expected to expire on Dec. 31, 2025. OBBBA made 127 Plans permanent and such plans will be indexed for inflation each year.

What are the parameters?

In general, 127 Plans exclude up to \$5,250 per year of employer-provided educational assistance benefits from an employee's gross income. To qualify, an educational assistance program must be a separate written plan of an employer for the exclusive benefit of its employees to provide such employees with educational assistance. Other requirements include, but not limited to:

- Providing benefits exclusively to employees of the employer (including current and former employees),
- Providing only qualified educational assistance benefits, and
- Does not allow employees a choice between educational assistance and cash.

What is a qualified educational assistance benefit?

Qualified educational assistance generally includes the payment, by an employer, of employee expenses for education (undergraduate- or graduate level courses) of the employees and do not have to be work-related courses. These types of education expenses include, but not limited to, tuition, fees, books, supplies, and equipment.

The payment by an employer (whether directly paid to the employee or to a lender) of principal or interest on any qualified education loan is also a qualified educational assistance benefit. The cost of supplies and certain equipment (other than textbooks) may also qualify, but only if the employee cannot retain the supplies and equipment after a course is completed.

Note: Educational assistance does not include the cost of meals, transportation, or lodging even if it's a part of the qualified courses. It also does not include any costs associated with any course or other education involving sports, games, or hobbies.

How do I claim this benefit?

Employers may deduct amounts paid toward a 127 Plan on its federal tax return as an eligible trade or business expense. See [Tax Deduction for Trade or Business Expenses](#) for more information on eligible trade or business deductions.

To learn more about Education Assistance Programs, please refer to the following resources:

- [I.R.C. § 127 and the regulations thereunder.](#)
- [FAQs About Educational Assistance Programs](#)



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Employer credit for social security and medicare taxes paid on certain employee tips

The employer credit for social security and medicare taxes paid on certain employee tips is an employer tax credit for eligible food and beverage establishments to claim a credit for Social Security and Medicare taxes paid on employee's tips.

What are the parameters?

Employers should consider claiming this credit if they meet both of the following conditions:

- You are an employer who had employees receive tips from customers for providing, delivering, or serving food or beverages for consumption, and the tipping of employees by customers is customary, and
- During the tax year, you paid or incurred employer Social Security and Medicare taxes on those tips.

The amount of this credit is generally equal to the amount of employer Social Security and Medicare taxes paid or incurred by the employer on tips received by the employee. However, employers cannot claim the credit for taxes on any tips used to meet the federal minimum wage.

OBBBA update

OBBBA introduces new tax provisions for “no tax on tips” and “no tax on overtime,” allowing eligible workers to claim deductions on their federal income tax for qualifying tip income and overtime pay. These new provisions do not impact this credit.

Employers should continue to pay Social Security and Medicare taxes on tips. These new provisions do not impact an employer's obligation to pay Social Security and Medicare taxes on tips or the credit calculation.

How do I claim this credit?

This credit is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- [I.R.S. Form 8846](#), Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips, and
- [I.R.S. Form 3800](#), General Business Tax Credit.

To learn more about this tax credit, please refer to I.R.C. § 45B.

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Empowerment zone employment credit

Employers are allowed to claim an empowerment zone employment credit for 20% of wages paid (up to \$15,000) to qualified employees who work and reside in empowerment zones.

Disclaimer: The Empowerment Zone Employment Credit expired on Dec. 31, 2025. Accordingly, this credit is only available for qualifying employers on applicable wages through the end of Dec. 2025. As of February 2026, the Empowerment Zone Employment Credit has not been extended. Please reach out to a qualified tax professional with any questions or assistance regarding the Empowerment Zone Employment Credit.

What are the parameters?

Any size employer or type of company can claim this credit. The Empowerment Zone Employment Credit is 20% of the employer's qualified zone wages, up to \$15,000, paid or incurred during the calendar year for services performed by an employee while the employee is a *qualified zone employee*.

Who is a qualified zone employee?

Subject to certain exceptions, a qualified zone employee is any employee (full-time or part-time) of the employer who:

- Performs substantially all of the services for that employer within an empowerment zone in the employer's trade or business, and
- Has their principal residence within that empowerment zone while performing those services

How do I claim this credit?

This credit is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- [I.R.S. Form 8844](#), Empowerment Zone Employment Credit, and
- [I.R.S. Form 3800](#), General Business Tax Credit.

To learn more about this tax credit, please refer to I.R.C. § 1396.

Where are empowerment zones located?

Urban Areas

Parts of the following urban areas were empowerment zones:

- Pulaski County, AR
- Tucson, AZ
- Fresno, CA
- Los Angeles, CA (city and county)
- Santa Ana, CA
- New Haven, CT
- Jacksonville, FL
- Miami/Dade County, FL
- Chicago, IL
- Gary/Hammond/East Chicago, IN
- Boston, MA
- Baltimore, MD
- Detroit, MI
- Minneapolis, MN
- St. Louis, MO/East St. Louis, IL
- Cumberland County, NJ
- New York, NY
- Syracuse, NY
- Yonkers, NY
- Cincinnati, OH
- Cleveland, OH
- Columbus, OH
- Oklahoma City, OK
- Philadelphia, PA/Camden, NJ
- Columbia/Sumter, SC
- Knoxville, TN
- El Paso, TX
- San Antonio, TX
- Norfolk/Portsmouth, VA
- Huntington, WV/Ironton, OH

Rural Areas

Parts of the following rural areas were empowerment zones:

- Desert Communities, CA
(part of Riverside County)
- Southwest Georgia United, GA
(part of Crisp County and all of Dooly County)
- Southernmost Illinois Delta, IL
(parts of Alexander and Johnson Counties and all of Pulaski County)
- Kentucky Highlands, KY
(part of Wayne County and all of Clinton and Jackson Counties)
- Aroostook County, ME
(part of Aroostook County)
- Mid-Delta, MS
(parts of Bolivar, Holmes, Humphreys, Leflore, Sunflower, and Washington Counties)
- Griggs-Steele, ND
(part of Griggs County and all of Steele County)
- Oglala Sioux Tribe, SD
(parts of Jackson and Bennett Counties and all of Shannon County)
- Middle Rio Grande FUTURO Communities, TX
(parts of Dimmit, Maverick, Uvalde, and Zavala Counties)
- Rio Grande Valley, TX
(parts of Cameron, Hidalgo, Starr, and Willacy Counties)

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Military spouse retirement plan eligibility credit for small employers

The military spouse retirement plan eligibility credit for small employers, also known as the military spouse participation credit, is a general business tax credit for immediately including military spouses in their defined contribution plan.

What are the parameters?

In general, the Military Spouse Participation Credit allows eligible employers to claim a \$200 credit for each military spouse that participates in an eligible defined contribution plan of the employer, plus up to \$300 of the amount of the employer's contributions (not including an elective deferral) to the plan during the tax year on behalf of the military spouse.

Limitation

The credit is limited to three successive tax years of the employer, beginning with the first tax year during which the employee began participating in the plan after it was adopted as, or amended to be, an eligible defined contribution plan. The credit is limited to three successive tax years of the employer, beginning with the first tax year during which the employee began participating in the plan after it was adopted as, or amended to be, an eligible defined contribution plan.

Eligible small employer

To qualify as an **eligible small employer**, an employer must employ 100 or fewer employees during the preceding tax year for which the credit is claimed and who were paid at least \$5,000 of compensation from the small employer during that tax year.

What is an eligible defined contribution plan?

An **eligible defined contribution plan** is generally any defined contribution plan of the eligible small employer under which military spouses employed by the employer are eligible to participate in the plan within two months of their hiring date, who are immediately eligible to receive matching or nonelective employer contributions that they would otherwise not qualify to receive for at least two years of employment, and must be immediately 100% vested in the defined contribution plan.

A **military spouse** is defined as an employee of the eligible small employer who is not highly compensated and, as of the first date the employee is employed or rehired by the employer is married to a member of the U.S. uniformed armed services serving on active duty.

The Military Spouse Participation Credit may be claimed only for tax years of an eligible small employer beginning after December 29, 2022.

How do I claim this credit?

This credit is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- **I.R.S. Form 8881**, Credit for Small Employer Pension Plan Startup Costs, Auto-Enrollment, and Military Spouse Participation, and
- **I.R.S. Form 3800**, General Business Tax Credit

To learn more, refer to I.R.C. § 45AA.



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Small employer health insurance credit

The small employer health insurance credit, also known as the small business health care tax credit, helps eligible small employers provide health insurance coverage for their employees. In general, this tax credit is up to 50% of the health insurance premiums paid for health insurance coverage under a qualifying arrangement.

What are the parameters?

The Small Business Health Care Tax Credit is a tax credit of the premiums an eligible small employer paid for health insurance coverage under a qualifying health plan.

The maximum credit is:

- 50% of premiums paid for small business employers and
- 35% of premiums paid for small tax-exempt employers.

An employer is considered an “eligible small employer” if the following requirements are met:

- The employer had fewer than 25 full-time equivalent employees (FTE) for the tax year.
- For 2025, the employer paid average annual wages for the tax year of less than \$66,600 per FTE.
- All FTEs are offered a qualified health plan through a Small Business Health Options Program (SHOP Marketplace (or qualify for a limited exception).
- Paid at least 50% of the cost of employee-only—not family or dependent—heath care coverage for each employee.

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What is the credit period?

This credit is only available to eligible small employers for two consecutive years beginning with the first year the employer claims the credit. The amount of credit the small employer receives works on a sliding scale. The smaller the employer, the bigger the credit.

How do I claim this credit?

This credit is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- [I.R.S. Form 8941](#), Credit for Small Employer Health Insurance Premiums, and
- [I.R.S. Form 3800](#), General Business Tax Credit.

For more information about this tax credit, see the following:

- I.R.C. § 45R and Treas. Reg. §§ 1.45R-0 through 1.45R-5.
- [Small Business Health Care Tax Credit and the SHOP Marketplace](#)
- [Small Business Health Care Tax Credit: Questions and Answers](#)
- [Small Business Health Options Program \(SHOP\)](#)

Small employer pension plan startup cost credit

The small employer pension plan startup cost tax credit is a tax credit for eligible employers of up to 50% of the ordinary and necessary costs of starting a retirement plan for small businesses (e.g., a Simplified Employee Pension, or a Savings Incentive Match Plan for Employees).

What are the parameters?

Only “eligible employers” may claim the Small Employer Pension Plan Startup Cost Tax Credit. An eligible employer must satisfy the following requirements:

- The employer had 100 or fewer employees who were paid at least \$5,000 in compensation for the preceding year;
- The employer had at least one participant who was a non-highly compensated employee (NHCE); and
- In the previous three tax years before the first year the employer is eligible for this credit, the employer’s employees were not substantially the same employees who received contributions or accrued benefits in another plan sponsored by the employee.

The credit is 50% of the eligible employer’s eligible startup costs, up to the greater of:

- \$500; or the lesser of:
 - ▷ \$250 multiplied by the number of NHCEs who are eligible to participate in the plan, or
 - ▷ \$5,000 eligible startup costs include the ordinary and necessary costs to set up and administer the plan and to educate employees about the plan.

How do I claim this credit?

This credit is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- [I.R.S. Form 8881](#), Credit for Small Employer Pension Plan Startup Costs, Auto-Enrollment, and Military Spouse Participation.
- [I.R.S. Form 3800](#), General Business Tax Credit.

Disclaimer: An eligible employer may not deduct the startup costs and claim the credit for the same expense.

To learn more about this tax credit, please refer to the following helpful resources,

- [I.R.C. § 45E](#)
- [Retirement Plans Startup Costs Tax Credit](#)

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Small employer retirement savings auto-enrollment credit

The small employer auto-enrollment credit is a tax credit for eligible small employers that includes an eligible automatic contribution arrangement in a qualified employer plan.

What are the parameters?

The Small Employer Auto-Enrollment Credit is a \$500 tax credit for the first tax year that an eligible employer first includes an eligible automatic contribution arrangement in a qualified employer plan. An eligible employer may claim this credit for each of the following two tax years, provided they maintain the automatic contribution arrangement during the applicable tax year.

To qualify as an eligible employer, employers must have no more than 100 employees during the tax year preceding the first credit year who received at least \$5,000 of compensation during that tax year.

How do I claim this credit?

This credit is part of the General Business Credit under I.R.C. § 38. Accordingly, to claim this tax credit, employers must complete and attach the following tax forms to its federal tax return:

- [I.R.S. Form 8881](#), Credit for Small Employer Pension Plan Startup Costs, Auto-Enrollment, and Military Spouse Participation.
- [I.R.S. Form 3800](#), General Business Tax Credit.

To learn more about this tax credit, please refer to the following helpful resources:

- I.R.C. § 45T
- [Retirement Plans Startup Costs Tax Credit](#)

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Work opportunity tax credit

The work opportunity tax credit (WOTC) is a tax credit available to employers for hiring individuals from certain targeted groups who have consistently faced significant barriers to employment. This tax credit is unique because it is jointly administered by the IRS and Department of Labor.

Disclaimer: The WOTC is expired on December 31, 2025. Employers will only be eligible to claim this tax credit through the end of 2025. As of February 2026, the WOTC has not been extended; however, it is possible it will be extended at some point. Please reach out to a qualified tax professional with any questions or assistance regarding the WOTC.

What are the parameters?

The WOTC is available for wages paid to certain individuals who begin work on or before December 31, 2025. This credit is generally equal to 40% of up to \$6,000 (i.e., a maximum tax credit of \$2,400 per employee) of wages paid to or incurred on behalf of, an individual who:

- Is in their first year of employment (and not a re-hire);
- Is certified as being a member of a targeted group; and
- Performs at least 400 hours of services for that employer (25% rate available if employee performs at least 120 hours of service but not the full 400 hours).

What is a targeted group employee?

An employee is a member of a targeted group if he or she began working for the employer before 2026, and is a:

- Long-term family assistance recipient,
- Qualified recipient of Temporary Assistance for Needy Families (TANF),
- Qualified veteran,
- Qualified ex-felon,
- Designated community resident,
- Vocational rehabilitation referral,
- Summer youth employee,
- Supplemental Nutrition Assistance Program (SNAP) benefits recipient,
- SSI recipient, or
- Qualified long-term unemployment recipient.

How do I claim this credit?

1. The employer must *pre-screen* and *obtain certification* that the employee is member of one of the abovementioned targeted groups to claim the credit. The certification is generally determined by a State Workforce Agency (SWA).
 - ▷ **Pre-Screen & Certification:** On or before the day that a job offer is made, a prescreening notice (I.R.S. **Form 8850**, Pre-Screening Notice and Certification Request for the Work Opportunity Credit) must be completed by both the job applicant and the employer.
 - Before the prescreening form can be submitted, the following four dates must be filled out—the date the job applicant:
 - Gave information,
 - Offered job,
 - Hired, and
 - Started job.
 - ▷ **Tax Form Submission:** The employer must submit **I.R.S. Form 8850** to its Designated Local Agency or SWA no later than 28 calendar days after the applicant started the job.
2. Once the required certification is received, to claim the credit, the employer must fill out the appropriate IRS tax form(s).
 - ▷ **Taxable Employers:** The WOTC is a General Business Tax Credit under I.R.C. § 38. Accordingly, taxable employers must claim this credit on its **I.R.S. Form 3800**, General Business Tax Credit and **I.R.S. Form 5884**, Work Opportunity Credit and file each form with its federal tax return.
 - ▷ **Tax-Exempt Employers:** Qualified tax-exempt organizations may claim credit for qualified veterans who begin working for the organization before 2026. After the required certification is received, tax-exempt employers claim the credit against the employer's share of Social Security tax by separately filing **I.R.S. Form 5884-C**, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans.

To learn more about this tax credit, please refer to the following helpful resources:

- I.R.C. § 51,
- [Work Opportunity Tax Credit](#)

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Architectural barrier removal tax deduction

The architectural barrier removal tax deduction encourages businesses of any size to remove architectural and transportation barriers to accommodate the mobility of people with disabilities and the elderly.

What are the parameters?

The IRS allows businesses to elect to take a deduction of up to \$15,000 per year for “qualified architectural and transportation barrier removal expenses.” Expenditures to make a facility or public transportation vehicle owned or leased in connection with a trade or business more accessible to, and usable by, individuals who are handicapped or elderly are eligible for the deduction (e.g., ramps, elevators, and signage). The definition of a “handicapped individual” is similar to the [Americans with Disability Act](#) definition of an “individual with a disability.”

Interaction with disabled access credit

Notably, if a business meets the requirements of the Architectural Barrier Removal Tax Deduction and is an eligible small business, it may also be eligible to claim the [Disabled Access Credit](#). In order to claim both the credit and deduction, the business must reduce the amount of the deduction by the amount of the credit claimed.

How do I claim this credit?

Businesses must elect to claim this deduction by listing it as a separate expense on its income tax return for the tax year the expenses were paid or incurred. Businesses must also maintain adequate records to support its deduction.

To learn more, refer to the following:

- I.R.C. § 190 and the regulations thereunder
- [IRS Publication 535—Business Expenses](#)

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Employer contribution related tax deductions

Employers may be eligible for a tax deduction by offering retirement savings and other benefits for the welfare of their employees. Specifically, employers may be able to claim a tax deduction for (i) employer contributions to deferred compensation plans, (ii) welfare benefit plans, and (iii) employer liability trust plans.

What are the parameters?

Employers may be eligible for a deduction with respect to contributions made to certain employee related plans. These rules are detailed and complex and any employer seeking to take one or all of these deductions should consult a professional tax advisor.

- **I.R.C. § 404**: Employers may be eligible for a deduction for its contributions to an employee's trust or annuity plan and compensation under a deferred-payment plan.
- **I.R.C. § 419**: Employers may be eligible for a deduction for contributions paid or accrued to a welfare benefit fund (e.g., life, health, disability, long-term care, and post-retirement medical).
- **I.R.C. § 194A**: Employers may be eligible for a deduction for contributions to certain employer liability trusts.

How do I claim this deduction?

Eligible businesses would claim these deductions on their federal tax return.

To learn more, refer to I.R.C. §§ 404, 419, and 194A. and the regulations thereunder.

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Tax deduction for trade or business expenses

Businesses may be allowed a tax deduction for trade or business expenses. In general, the deduction for trade or business expenses permit taxpayers to deduct **ordinary and necessary expenses** that are paid or incurred in carrying on a trade or business.

What are the parameters?

Businesses may be allowed a deduction for trade or business expenses under I.R.C. § 162. The general rule is that businesses may deduct trade or business expenses that are ordinary and necessary and directly connected to the taxpayer's trade or business.

Examples of these types of expenses include:

- Management expenses,
- Payments on educational assistance programs,
- Commissions,
- Labor,
- Supplies,
- Incidental repairs,
- Operating expenses of automobiles used in the trade or business,
- Business travel,
- Advertising and other selling expenses,
- Business insurance premiums against fire, storm, theft, accident, or other similar losses, and
- Rental for the use of business property.

Ordinary and necessary expenses

Deductible “ordinary” expenses generally include expenses that are “customary or usual of common or frequent occurrence of the trade or business” and “necessary” expenses generally are defined as expenses that are “appropriate and helpful for the development of the business.”

How do I claim this deduction?

Businesses may deduct its eligible trade or business expenses on its federal tax return.

For more information on the trade or business tax deduction, please refer to I.R.C. § 162 and the regulations thereunder.

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2025 Tax Guide

Employer Incentives
for Workforce Support
and Benefits



U.S. Chamber of Commerce