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Big changes and big opportunities: Navigating the employee benefits provisions of the One Big Beautiful Bill Act

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On July 4, 2025, President Donald Trump signed into law the One Big Beautiful Bill Act (OBBB, https://bit.ly/40Ktoj3), which enacts significant changes that affect employee benefits and executive compensation. Employers should take quick action to review the impact on their current benefit arrangements and to identify opportunities to provide new benefits to their employees. The following is an overview of these changes.

What you need to know

1. Significant changes related to remuneration over $1 million

Effective for taxable years beginning after December 31, 2025

- The OBBB modified Internal Revenue Code (Code) Section 162(m) to aggregate all controlled group members for purposes of determining the deduction limitation and allocation of the deduction. This means that a public company will need to include all members of certain affiliated entities when determining the top five paid employees to include as covered employees. This new rule also requires public companies to include compensation paid to the covered employee by all controlled group members in determining the amount of compensation to be disallowed as a compensation expense. The controlled group will allocate the $1 million deduction limit among the controlled group members relative to how much each company paid the employee.
- The OBBB also modifies the Code to provide that applicable tax-exempt organizations will be subject to an excise tax on remuneration in excess of $1 million paid to any employee of such organization or former employee of such organization who was an employee during any taxable year beginning after December 31, 2016 (rather than just to the five most highly compensated employees of the organization in a current or prior tax year).

2. Health Savings Accounts (HSAs)

Effective retroactively to plan years beginning after December 31, 2024

- During the Covid-19 pandemic, high-deductible health plans (HDHP) were permitted to cover telehealth and other remote care services before patients met their deductibles, without such coverage preventing HSA eligibility. The OBBB makes this rule permanent and permits plan sponsors to continue to provide this first-dollar telehealth coverage benefit.

The OBBB also permits HSA owners to spend up to $150 per month per individual or $300 per month per family (as indexed for inflation) on direct primary care services.

Effective beginning January 1, 2026

- An HSA can be used only with an HDHP that meets certain out-of-pocket spending limits. The OBBB expands this to include bronze and catastrophic plans, as defined in the Affordable Care Act, as an HDHP, therefore making such plans HSA-compatible.
- The OBBB also permits HSA owners to spend up to $150 per month per individual or $300 per month per family (as indexed for inflation) on direct primary care (DPC) services. DPC fees may be treated as qualified medical expenses rather than as insurance. Certain services are excluded from being considered primary care services, such as procedures requiring use of general anesthesia, provision of prescription drugs that are not

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vaccines, and laboratory services not typically provided in an ambulatory primary care setting.

3. Higher limits for dependent care Flexible Spending Accounts (FSA)

Effective for taxable years beginning after December 31, 2025

- The OBBB increases the dependent care FSA limit to $7,500 ($3,750 for married couples filing separately), which is not indexed for inflation. Plan sponsors should note that this increased limit may affect nondiscrimination testing, as highly compensated employees often contribute to dependent care FSAs at a higher rate.

4. Fringe benefits

Effective for taxable years beginning after December 31, 2025, the OBBB

- removes the qualified bicycle commuting reimbursement exclusion
- terminates both the deduction for moving expenses and the exclusion for employer-provided qualified moving expense reimbursements for all taxpayers other than, in certain circumstances, certain members of the armed forces and certain members of the intelligence community

Determine which changes apply to your employee benefit plan and when they need to be implemented. Certain changes take effect upon enactment, so it is important for plan sponsors to determine as soon as possible whether immediate action will be required.

- makes permanent the paid family and medical leave credit and allows employers to claim the paid family and medical leave credit for a percentage of the insurance premiums paid or incurred by such employer for insurance policies that cover paid family and medical leave

Effective beginning January 1, 2026, the OBBB

- increases the employer-provided childcare credit rate to 40% (50% for eligible small businesses) of qualified childcare expenditures and increases the overall cap on such credit for a given taxable year to $500,000 ($600,000 for eligible small businesses) (as indexed)
- makes permanent a tax exclusion for employer repayments of student loans up to $5,250, indexed for inflation

5. Trump accounts

Effective for taxable year beginning after December 31, 2025 — contributions not accepted until July 4, 2026

The OBBB creates a new type of tax-preferred investment account called a Trump Account.

- This can be established for individuals who have not yet attained age 18 before the close of the calendar year in which an election is made to establish the account.
- For children born in 2025 through 2028, the government will provide a $1,000 credit to their Trump Account.
- The annual cap on contributions (other than exempt contributions) is $5,000, indexed for inflation. Generally, contributions are not tax deductible.
- The law generally prohibits distributions until the first day of the calendar year in which the child turns 18.
- Earnings are tax-free, and qualified withdrawals are similar to current rules for individual retirement accounts.
- An employer may adopt a Trump Account contribution program that allows employer contributions on a tax-free basis of up to $2,500, indexed for inflation. Employers should note, however, that this will be subject to written plan document and nondiscrimination testing requirements similar to dependent care FSAs.

What you need to do

(1) Determine which changes apply to your employee benefit plan and when they need to be implemented. Certain changes take effect upon enactment, so it is important for plan sponsors to determine as soon as possible whether immediate action will be required.

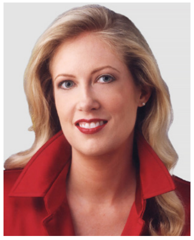
(2) Review employee and board of directors communications that discuss affected items, including changes to benefit availability, plan operations, or compensation considerations.

(3) Consider plan document amendments or written plan requirements and whether policy changes are needed. Many of the OBBB changes may require amendments to plan documents, such as to reflect recordkeeper changes and other discretionary changes that are required to be documented in the year in which they are implemented.

(4) Have conversations both internally (i.e., with payroll, accounting) and externally (i.e., with nondiscrimination testing providers, third-party administrators) to discuss administrative practices that these changes may affect.

Because not all OBBB changes regarding employee benefits and executive compensation are described in this Update, please contact us with questions regarding how this new legislation may affect the benefits your company provides.

About the authors



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