

Publications

July 18, 2025 • Updates

A Quick Look at Benefits and Executive Compensation Provisions in the One Big Beautiful Bill

On July 4, 2025, President Donald J. Trump signed into law the One Big Beautiful Bill (OB BB). For employers, the most notable benefits-related provisions include expanded flexibility for health savings accounts (HSAs) and new restrictions on premium tax credit eligibility – changes that may reduce the risk of triggering an employer shared responsibility penalty under the Affordable Care Act (ACA). While the OB BB does not change the tax incentives for retirement savings, nor does it cap the exclusion amount for employer-sponsored health insurance, it introduces several developments worth employer attention. A summary of key provisions follows.

HSAs

- **Extension of Telehealth Safe Harbor for HSA Participants.** The OB BB permanently extends the COVID-era safe harbor allowing coverage of telehealth and other remote care services to be provided under a high-deductible health plan (HDHP) on a free or discounted basis without adversely affecting such participant's HSA eligibility. This change is effective retroactively and applies for all years beginning after December 31, 2024.
- **Treatment of Direct Primary Care Arrangements.** Under the OB BB, direct primary care service arrangements are not disqualifying coverage for purposes of HSA eligibility as long as the membership fee does not exceed \$150 per month for an individual or \$300 per month for a family. These limits will be adjusted for inflation. In addition, the fees paid for such an arrangement are treated as medical expenses that can be reimbursed from an HSA. Primary care service arrangements that provide services other than primary care, such as general anesthesia, prescription drugs other than vaccines and lab services not administered in a primary care setting, will not qualify. This change is effective beginning on January 1, 2026.
- **Bronze and Catastrophic Plans and HSAs.** Bronze and catastrophic individual plans offered through a marketplace are now included in the definition of HSA-compatible HDHPs. This change is effective beginning on January 1, 2026.

ACA Premium Assistance Tax Credit

- **Limitations on Premium Tax Credit Eligibility.** The OB BB restricts eligibility for the

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premium tax credits under the ACA to United States citizens, lawful permanent residents, certain immigrants from Cuba and Haiti and citizens of Compact of Free Association nations. The premium tax credit is also not available where the individual enrolls during special enrollment periods as a result of changes in an individual's expected household income. These two changes are effective for tax years beginning after December 31, 2027. The OBBB also makes ineligible lawfully present aliens with a household income of less than 100% of the federal poverty line from qualifying for premium tax credits during periods of Medicaid ineligibility caused by their immigration status, effective for tax years beginning after December 31, 2025. These changes potentially will result in reducing employers' exposure to ACA employer penalties.

- **Verification of Eligibility for Health Plan.** An individual's eligibility for the premium assistance credit and any cost sharing reductions must be verified by the exchange using enrollment information provided by the individual. Passive reenrollment is prohibited. This change is effective for tax years beginning after December 31, 2027.
- **Elimination of Limitation on Recapture of Advance Payments.** The OBBB removes the limitations on liability for excess advance payments made to individuals with a household income below 400% of the federal poverty level. This change is effective for tax years beginning after December 31, 2025.

Fringe Benefits

- **Employer Payments of Student Loans.** The OBBB permanently allows employers to make student loan reimbursement payments and indexes the overall exclusion for educational assistance programs for inflation. This change is effective for payments made after December 31, 2025.
- **Termination of Qualified Bicycle Commuting Reimbursement.** The exclusion for qualified bicycle commuting reimbursement is eliminated under the OBBB, effective for tax years beginning after December 31, 2025.
- **Extension of Limitation on Exclusions and Deductions for Moving Expenses.** Effective for tax years beginning after December 31, 2025, the deduction for moving expenses and the exclusion for employer-provided qualified moving expense reimbursements are terminated, except for certain members of the United States Armed Forces and intelligence agencies.
- **Extension of Paid Family and Medical Leave Credit.** The OBBB makes the paid family and medical leave credit permanent and allows this credit to be claimed for a percentage of premiums paid for insurance policies that provide paid family and medical leave for qualifying employees, effective for tax years beginning after December 31, 2025.
- **Enhancing Employer-Provided Child Care Credits.** The employer provided child care tax credit is increased to \$500,000 (\$600,000 for eligible small businesses) on up to 40% of the employer's qualified child care expenses (50% for eligible small businesses). These amounts are indexed for inflation and this change is effective for amounts paid or incurred after December 31, 2025.
- **Enhancing the Dependent Care Assistance Program.** The maximum dependent care assistance program annual exclusion increases to \$7,500 for individuals filing jointly or singly, or \$3,750 for individuals who are married and filing separate returns. This change is effective for tax years beginning after December 31, 2025.

Executive Compensation

- **Limiting the Deduction of Excessive Remuneration.** The OBBB adds a new subsection to Internal Revenue Code (the Code) Section 162(m) applying the controlled group rules for purposes of the deduction limitation for remuneration in excess of \$1 million and the allocation of the deduction, effective for tax years

beginning after December 31, 2025. Looking ahead, employers may want to plan to explore more tax-efficient incentive structures, such as equity-based compensation that may qualify for capital gains treatment (e.g., ISOs) and become increasingly attractive relative to cash bonuses or deferred compensation.

- **Expanding the Application of Excise Tax on Excess Compensation Within Tax-Exempt Organizations.** The OBBB amends the Code Section 4960 rules that govern excise taxes on certain tax-exempt organizations that pay more than \$1 million in remuneration or excess parachute payments to certain “covered employees.” Currently, a “covered employee” includes (a) one of the five highest compensated employees of the organization for the taxable year and (b) an employee who was a covered employee for the organization for any preceding taxable year after 2016. Effective for tax years beginning after December 31, 2025, “covered employees” will include *any* current or former employee of the tax-exempt organization who receives more than \$1 million in remuneration or excess parachute payments.

Other Benefits

- **Trump Accounts.** The OBBB creates a new type of tax-preferred account for children under the age of 18 called “Trump Accounts.” Trump Accounts permit up to \$5,000 in annual contributions, and starting in 2028, this \$5,000 limit will be subject to cost-of-living adjustments. Distributions from Trump Accounts are not permitted prior to the child turning 18 years old and the accounts are subject to certain investment restrictions. These accounts are treated similarly to individual retirement accounts under Code Section 408(a) and the OBBB provides for up to \$2,500 in annual nontaxable employer contributions to Trump Accounts. Contributions to Trump Accounts will be accepted starting on July 4, 2026.

If you have any additional questions, please feel free to reach out to Bill Sweeney, John Martini, David Isaacson, Rachel Shim, Cory Thomas, Meredith VanderWilt, Alexandra Green, Polsinelli’s Executive Action Working Group at ExecutiveActionInquiries@polsinelli.com or your regular Polsinelli attorney.