How the Big Beautiful Bill Will Impact Your Employee Benefits and Compensation Strategy

Labor & Employment Law Update

By Rebecca Bush on July 8, 2025

The Big Beautiful Bill, signed into law by President Trump on July 4, 2025, spans nearly 900 pages and touches numerous aspects of federal policy. Nestled within this lengthy legislation are employee benefits provisions that will require employers to navigate new rules, opportunities, and compliance requirements.

From additional tax deductions for workers to new savings vehicles for children, the benefits-related sections introduce changes that span traditional compensation structures, family support programs, and organizational compliance obligations.

1. Overtime and Tip Income Provisions

Effective January 1, 2025

The legislation establishes new individual deductions beginning with the 2025 tax year.

- Overtime deduction: Employees can deduct up to $12,500 annually ($25,000 for joint filers) for qualified overtime earnings, with income-based phase-outs beginning at $150,000 ($300,000 for joint filers) *(Section 70202)*
- Tip income deduction: Service industry employees earning under $160,000 receive above-the-line deductions for qualified tips through 2028 *(Section 70201)*
- Employer Impact: Employers will need to separately track and report "qualified" compensation on W-2 forms to enable these new deductions. New reporting obligations will require updates to payroll and tax reporting systems.

2. Health Savings Account (HSA) Enhancements

Effective January 1, 2026

The final legislation expanded HSA eligibility and permitted uses, but not as dramatically as initially proposed.

- Eligibility Expansion: Bronze or Catastrophic ACA marketplace plans qualify as high-deductible health plan coverage *(Section 71307)*
- Expanded Eligible Expenses: Direct primary care membership fees (up to $150/month); Makes permanent telehealth safe harbor (no deductible required) (*Sections 71308 and 71306*)

Note: The final legislation does *not* include several HSA provisions that were in earlier drafts.

3. Individual Coverage Health Reimbursement Arrangements (ICHRAs)

No Name Change: Contrary to earlier drafts, ICHRAs will retain their current name and structure. The final legislation does not include the proposed "CHOICE Arrangements" rebrand or the associated employer tax credits that were in preliminary versions.

4. Trump Accounts and Contribution Pilot Program

Effective January 1, 2026

A new savings vehicle designed for children under 18 with significant employer implications. *(Section 70204)*

ACCOUNT STRUCTURE

- Special retirement-style accounts designed specifically for children under 18 years old
- Investment options are restricted to low-cost index funds with fees capped at 0.1% annually to protect long-term growth
- Funds must be invested in broad market indices like the S&P 500 rather than individual stocks or sector-specific funds
- Parents and employers can contribute up to $5,000 per year before the child turns 18.

PILOT PROGRAM BENEFITS

- The government will deposit $1,000 into accounts for qualifying children born between 2025-2028
- Eligibility is limited to U.S. Citizen children from families meeting certain income requirements

EMPLOYER CONSIDERATIONS

- Companies will have the ability to offer Trump Account contributions as a new employee benefit, with contributions being tax-deductible for the employer, and tax-free for the employee (up to $5,000 annually)
- Requires coordination with existing family benefits like dependent care assistance

5. Family Support Program Changes

FAMILY AND MEDICAL LEAVE CREDIT *(SECTION 70304)*

- Employers can choose to claim tax credits either based on actual wages paid during leave or based on insurance premiums paid for leave coverage policies
- New rules clarify when related companies must be treated as one employer for credit purposes, with exceptions for legitimate business separations
- Clearer guidance on how the federal credit coordinates with state-mandated paid leave programs

CHILD CARE CREDIT MODIFICATION *(SECTION 70401)*

- The tax credit rate for employer-provided child care increases from 25% to 40% for most employers, meaning employers can claim a larger credit for their childcare investments
- Small businesses receive an even higher 50% credit rate for qualified childcare expenditures
- The annual limit on credits increases dramatically to $500,000 for standard employers and $600,000 for small businesses, with automatic annual cost-of-living increases
- Employers can now qualify for credits when using third-party childcare providers or sharing childcare facilities with other companies

DEPENDENT CARE ASSISTANCE *(SECTION 70404)*

- The tax-free benefit employees can receive for dependent care expenses increases from $5,000 to $7,500 annually ($3,750 for employees filing separate tax returns)
- **Effective January 1, 2026**

Education and Adoption Benefits

STUDENT LOAN BENEFITS *(SECTION 70412)*

- The $5,250 annual limit for tax-free employer student loan repayment assistance becomes permanent (was set to expire at the end of 2025)
- Starting in 2026, this limit will increase annually with inflation

ADOPTION CREDIT CHANGES *(SECTIONS 70402 AND 70403)*

- Up to $5,000 of the adoption tax credit can now be received as a direct refund, even if families owe no income tax
- Credit amounts will automatically adjust for inflation over time

6. Executive Compensation and Tax-Exempt Organization Compliance

Effective January 1, 2026

CONTROL GROUP COMPENSATION LIMITATIONS

Changes to Section 162(m) executive compensation deduction limits *(Section 70603)*:

NEW AGGREGATION RULES:

- Related companies must now combine all compensation paid to the same executive when calculating the $1 million tax deduction limit, rather than each company getting its own separate $1 million limit
- This applies to companies with common ownership or control, determined using the same tests used for retirement plan purposes
- If multiple related companies pay the same executive, they must split the $ million deduction limit based on how much each company paid that person
- Any company in a group that includes a publicly traded corporation is subject to these rules, even if the subsidiary itself is privately held

IMPACT ON EMPLOYERS:

- Multi-entity organizations should coordinate executive compensation strategies
- Private entities in controlled groups with public companies need to consider deduction limitations
- Requires enhanced tracking and reporting across related entities

TAX-EXEMPT ORGANIZATION COMPENSATION RULES

Expanded application of excess compensation excise tax *(Section 70416)*:

COVERAGE EXPANSION:

- Previously, the excise tax only applied to the 5 highest-paid employees; now it applies to any employee earning over $1 million
- All tax-exempt organizations (hospitals, universities, foundations, etc.) must monitor compensation for every employee, not just top executives
- The tax applies to anyone who worked for the organization since 2017, even if they left and later return above the $1 million threshold
- Organizations pay a 21% penalty tax directly to the IRS on any compensation above $1 million per employee

EMPLOYER ACTION ITEMS:

- Review employee compensation agreements at tax-exempt organizations
- Consider restructuring arrangements to minimize excise tax exposure

7. ACA Marketplace Verification Enhancements

Effective January 1, 2028

New verification requirements that may reduce surprise ACA shared responsibility penalties *(Section 71303)*:

ENHANCED ELIGIBILITY VERIFICATION:

- Health insurance marketplaces must verify household income, citizenship/immigration status, existing health coverage, and residence before individuals can enroll and receive premium tax credits
- Marketplaces must offer a pre-enrollment verification process starting in August for coverage beginning the following year
- Individuals will face stricter documentation requirements when enrolling during special enrollment periods not tied to qualifying life events

EMPLOYER BENEFIT:

More through verification of employee eligibility could help reduce the number of incorrect penalty notices sent to employers

Conclusion

Given the complexity of these changes and their varying effective dates, organizations may benefit from consulting with benefits counsel and tax advisors to ensure proper implementation and compliance. The provisions affecting controlled groups, tax-exempt organizations, and ACA marketplace interactions will require particular attention from organizations in those categories.

As Treasury guidance and implementing regulations are developed, employers will receive more clarification on operational requirements and administrative procedures.