

# Employee Benefit Highlights of the “One Big Beautiful Bill Act”

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Public Law 119-21, generally referred to as the “One Big Beautiful Bill” Act (the “Act”) and signed into law on July 4, 2025, includes several employee benefit provisions that employers will want to be aware of. Below is an overall outline of the relevant items:

## ***Enhancement of Employer-Provided Dependent Care Assistance Program (“DCAP”) Benefits (effective January 1, 2026)***

Under the Act, the maximum amount of DCAP benefits that can be excluded from an employee’s income is increased from \$5,000 to \$7,500.

## ***Limited HSA Payments Permitted for Eligible Direct Primary Care Service Arrangements (effective January 1, 2026)***

A direct primary care service arrangement (“DPCSA”) is an arrangement under which an individual pays a fixed periodic fee for medical care consisting solely of primary care services provided by primary care practitioners (i.e., physicians, nurse practitioners, clinical nurse specialists, and physician assistants who specialize in family, internal, geriatric, or pediatric medicine). DPCSAs do not include arrangements that cover procedures requiring the use of general anesthesia, prescription drugs other than vaccines, and laboratory services not typically administered in an ambulatory primary care setting. Under the Act, HSAs may now be maintained by individuals covered under a DPCSA, and may reimburse fees of up to \$150 per month for medical expenses incurred by the covered individual. (If the DPCSA covers more than one individual, the HSA may reimburse fees of up to \$300 per month.)

## ***Trump Accounts (effective in 2026)***

Under the Act, special IRAs can be set up for individuals under the age of 18 who are United States citizens with social security numbers. Subject to certain exceptions, the aggregate amount of annual contributions to a Trump Account cannot exceed \$5,000 (adjusted for inflation). Employers can make annual contributions of up to \$2,500 to their employees’ children’s Accounts. Funds in the Accounts must be invested in mutual or exchange-traded funds that track the returns of a qualified index. Children born between January 1, 2025 and 2028 will be eligible to receive \$1,000 in their Trump Accounts from the government. No Account distributions are permitted before the Account beneficiary attains age 18. Distributions after age 18 generally follow IRA distribution rules.

## ***Extension and Enhancement of Paid Family and Medical Leave Credit (effective January 1, 2026)***

The existing paid family and medical leave credit, originally scheduled to expire at the end of 2025,

will be extended indefinitely. As a reminder, employers are allowed to claim this credit for up to a predetermined percentage of the wages paid while the employee is out on family or medical leave. In addition to extending the credit, the Act allows an employer to claim the credit for up to a predetermined percentage of the premiums paid or incurred by the employer for a family and medical leave insurance policy, if the employer maintains one. Finally, before the Act, the credit was available only if the service requirement for the paid leave was at least 12 months. Under the Act, the credit will be available as long as the service requirement is at least 6 months.

#### ***Enhancement of Employer Credit for Child Care Facilities (effective January 1, 2026)***

Prior law provided employers with a tax credit for employer-provided child care, such as expenditures paid or incurred to construct a childcare facility. The credit was for up to 25% of expenditures, not to exceed \$150,000. Under the Act, it is increased to 40% of expenditures, not to exceed \$500,000.

#### ***Exclusion for Employer Payments of Student Loans (effective January 1, 2026)***

Prior law allowed employers to offer tax-free student loan repayment assistance under Section 127 of the Internal Revenue Code ("Code"), up to an annual limit of \$5,250. This benefit was due to expire at the end of 2025, but has now been made permanent. Also under the Act, the \$5,250 limit will be adjusted for inflation starting in 2027.

#### ***Permanent Extension of Safe Harbor for Telehealth Services (effective January 1, 2025)***

HDHPs may continue to cover telehealth and other remote care services without imposing a deductible. (This benefit was previously due to expire at the end of 2025.)

#### ***Section 162(m) Deduction Cap (effective January 1, 2026)***

The Act makes certain changes to the operation of Section 162(m) of the Code, which limits employer deductions for compensation in excess of \$1 million paid to "covered employees" of publicly held corporations (currently defined as the CEO, CFO, the next three highest compensated officers other than the CEO or CFO who are required to be reported in the company's annual proxy statement, any employee who has been a covered employee since January 1, 2017, and effective in 2027, will also include the next five highest compensated employees not covered in the foregoing categories). Changes under the Act address application of the deduction limit to controlled groups of entities.

First, prior to the Act, only entities that were connected through 80% stock ownership with a common parent corporation formed a controlled group for purposes of Section 162(m). Under the Act, a controlled group will be expanded to include parent-subsidiary controlled groups, brother-sister controlled groups, and affiliated service groups.

Second, the Act clarifies that for purposes of determining the "next five highest compensated employees," the employees of all members of a controlled group must be taken into account.

Finally, the Act clarifies that for purposes of determining the compensation of any covered employee, their compensation from any and all entities of a controlled group must be aggregated; in addition, an employer's deduction limit must be allocated amongst all entities in the employer's controlled group, in the proportion that each entity pays to the covered employee.

#### ***Expanded Application of Excise Tax on Covered Employees of Tax-Exempt Organizations***

***(effective January 1, 2026)***

Section 4960 of the Code imposes a 21% excise tax on (1) payments made to a covered employee of an applicable tax-exempt organization that exceeds \$1 million, and (2) any excess parachute payment to a covered employee. Prior to the Act, covered employees were limited to current or former employees who were one of the five highest compensated employees of the organization (or a predecessor organization) for the taxable year or any preceding taxable year beginning after December 31, 2016. Under the Act, the group of covered employees is expanded to include any current or former employee of the organization (or a predecessor organization) during any taxable year beginning after December 31, 2016.

***Elimination of Moving Expense Benefit (effective January 1, 2026)***

Employers (outside of the Armed Forces and intelligence agencies such as the CIA and NSA) may no longer reimburse employees' moving expenses on a tax-free basis.

***Elimination of Bicycle Commuting Benefit (effective January 1, 2026)***

Employers may no longer reimburse employees' bicycle commuting expenses on a tax-free basis.

***Conclusion***

The changes described above provide more options for employers in administering their benefit plans. However, employers should keep in mind that we expect additional guidance on administering many of the above provisions, and Kelley Drye will continue to monitor such guidance. In the meantime, please feel free to reach out to your benefits attorneys at Kelley Drye for any questions you may have regarding the Act.

Please also see analysis of the Act from our Kelley Drye colleagues:

May 23, 2025: [One Big Beautiful Bill Act](#)

June 9, 2025: [Proposed Section 899 - The Retaliatory Tax Regime](#)

July 8, 2025: [What's in the Newly Enacted One Big Beautiful Bill Act](#)