

# Sweeping Legislation Includes Provisions Affecting Wide Variety of Employee Benefits

## EBIA Weekly (July 10, 2025)

*An Act to provide for reconciliation pursuant to title II of H. Con. Res. 14, Pub. L. No. 119-21 (July 4, 2025)*

Available at <https://www.congress.gov/bill/119th-congress/house-bill/1/text>

Congress has enacted wide-ranging legislation (formerly referred to as the One Big Beautiful Bill) that includes provisions affecting dependent care benefits, health savings accounts, and many benefit-related tax credits and employer deductions. Here are highlights:

- **Dependent Care.** The maximum amount of DCAP benefits that can be excluded from income is increased from \$5,000 to \$7,500 (from \$2,500 to \$3,750 for taxpayers who are married filing separately). In addition, the dependent care tax credit (DCTC) has been enhanced. The DCAP and DCTC changes apply to taxable years beginning after 2025. Changes have also been made to the child tax credit and other tax provisions that may be relevant when determining the federal tax savings from participating in a DCAP vs. claiming the DCTC. The new law also enhances the credit available to employers that provide childcare services to their employees. [For more information, see EBIA's Cafeteria Plans manual at Sections XXIII.C ("DCAP Participation vs. Claiming the Dependent Care Tax Credit"), XXIV.I ("DCAP Income Exclusion Is Limited Under Code § 129"), and XXV.N ("Tax Credit for Employer-Provided Childcare").]
- **HSAs.** The new law makes permanent the safe harbor allowing high-deductible health plans (HDHPs) to cover telehealth and other remote care services before the minimum deductible is satisfied without losing their HDHP status. These services are also considered disregarded coverage on a permanent basis and thus will not cause a loss of HSA eligibility. The changes are retroactively effective for plan years beginning after 2024. Bronze and catastrophic plans available as individual coverage through an Exchange will be treated as HDHPs, effective for months beginning after 2025. Also effective for months beginning after 2025, direct primary care service arrangements will not adversely affect HSA eligibility if certain requirements are met regarding fees charged and services provided; fees for these arrangements are qualified medical expenses for HSA purposes. [For more information, see EBIA's Consumer-Driven Health Care manual at Sections X ("HSAs: Required HDHP Coverage"), XI ("HSAs: Other Permissible/Impermissible Types of Coverage"), and XV.C ("What Is an HSA-Qualified Medical Expense?").]
- **Employer Tax Credit for Paid Family and Medical Leave.** The Code § 45S tax credit for employers providing paid family and medical leave, which was set to expire at the end of 2025, has been permanently extended. Since 2018, the credit has been available to offset a percentage of wages paid during leave to eligible employees whose prior-year compensation was at or below a specified amount. Beginning in 2026, the credit may alternatively be used to offset a portion of insurance premiums paid by employers for policies that provide paid leave to eligible employees. [For more information, see EBIA's Group Health Plan Mandates manual at Section XVII.M.7 ("Employer Tax Credit for Paid Family and Medical Leave").]

- **Premium Tax Credits.** Several changes have been made to the eligibility rules for premium tax credits. Adding to the current limitation for individuals who are not “lawfully present,” the legislation further limits the credits, beginning in 2027, for individuals who are not “eligible aliens.” (The term is narrowly defined to include only certain individuals lawfully admitted for permanent residence and certain others granted special refugee status or lawfully residing in the United States under specific agreements.) The credit will also be disallowed, beginning in 2026, during periods of Medicaid ineligibility due to alien status. In addition, the existing cap on the recapture of advance payments of the credit will be eliminated, beginning in 2026. And detailed Exchange eligibility verification rules will take effect in 2028. [For more information, see EBIA’s Health Care Reform manual at Sections XXI.A (“Establishment and Functions of Exchanges”) and XXI.G (“Premium Tax Credits”).]
- **Savers Tax Credit.** The amount of retirement plan contributions for which eligible individuals may claim up to a 50% tax credit will increase from \$2,000 to \$2,100 for taxable years beginning after December 31, 2026. In addition, the definition of “qualified retirement savings contributions” for this purpose is modified to eliminate SECURE 2.0 Act changes that would have taken effect beginning in 2027 and to shift the focus of the credit away from retirement plan contributions and toward contributions to ABLE accounts for tax years beginning after 2026. [For more information, see EBIA’s 401(k) Plans manual at Section II.H.2 (“Retirement Savings Contributions Credit (or Matching Contributions in 2027 and Later) for Certain Income-Eligible Plan Participants”).]
- **Business Meal Deductions.** Effective in 2026, the 50% deduction limit on allowable business meal expenses will be waived for meals provided on certain fishing boats and at specified commercial fish processing facilities. [For more information, see EBIA’s Fringe Benefits manual at Section XVI, “Employer-Provided Meals”).]
- **Transportation Benefits.** For tax years beginning after 2025, bicycle commuting expense reimbursements for employees will be eliminated from the definition of qualified transportation fringe benefits, making permanent the suspension that has been in place since 2018. Also, minor changes have been made to inflation adjustments on exclusion limits for transportation benefits. [For more information, see EBIA’s Fringe Benefits manual at Sections XX.G (“Bicycle Commuting Reimbursement”), and XX.T (“Deduction Limits and Other Laws Affecting Qualified Transportation Plans”).]
- **Moving Expenses.** The elimination of the moving expense deduction and tax-free moving expense reimbursements for most employers, in effect since 2018 and scheduled to end after 2025, has been made permanent. Along with U.S. Armed Forces members, members of the intelligence community who are not also U.S. Armed Forces members and who must relocate for a change in assignment may now claim the moving expense deduction or an exclusion for qualified moving expense reimbursements. Changes are effective for tax years beginning after 2025. [For more information, see EBIA’s Fringe Benefits manual at Sections XVII.B (“Who Can Offer and Who Can Receive Qualified Moving Expense Reimbursements?”) and XVII.C (“Three Eligibility Tests for Qualified Moving Expense Reimbursements”).]
- **Adoption Credit.** For tax years beginning in 2025, \$5,000 of the adoption tax credit (subject to inflation adjustments) is now refundable. The refundable portion is ineligible to be carried forward to other tax years. Also, beginning in 2025, Indian Tribal Governments (along with states) are authorized to determine whether a child has special needs for purposes of the adoption credit. [For more information, see EBIA’s Fringe Benefits manual at Section III.D (“Adoption Tax Credit Is Also Available: How It Works”).]
- **Employer Student Loan Payment Assistance.** The temporary provision allowing employers to help employees pay their student debt, which was scheduled to expire at the end of 2025, has been made permanent. Employees may continue to exclude employer payments toward qualified education loans, up to a maximum of \$5,250 annually, as adjusted for inflation after 2026. [For more information, see EBIA’s Fringe Benefits manual at Section **X.C** (“Types of Educational Assistance That Can Be Offered”).]
- **Trump Accounts.** Effective for tax years beginning in 2026, the law creates “Trump accounts,” which will be treated like individual retirement accounts (IRAs) and may be established for minors who are U.S. citizens with a social security number. Detailed provisions set forth rules on initial funding, ongoing contributions, permissible investments, and distributions (which are generally prohibited before the year

the beneficiary reaches age 18). Employers will be able to contribute up to \$2,500 per year (adjusted for inflation) to the Trump account of an eligible employee or employee's dependent through a Trump Account Contribution Program meeting specified requirements similar to those applicable to DCAPs. Employer contributions are excludible from the taxable income of the employee and the account beneficiary. Contributions are permitted until the calendar year the beneficiary turns 18. [For more information, see EBIA's Fringe Benefits manual at Section XXIV ("Miscellaneous Fringe Benefits").]

**EBIA Comment:** The benefit-related provisions in the law differ from those in the version initially passed by the House; employee benefit professionals will need to carefully review the final provisions affecting the types of plans and benefits they work with to ensure that they understand the nuances. Unlike many benefit plan limits and thresholds, the maximum DCAP exclusion amounts are not indexed for cost-of-living changes and have remained at their current levels for years (although there was a brief, temporary increase during the COVID-19 pandemic. DCAP sponsors and participants will welcome this permanent increase (but should consider possible nondiscrimination testing effects). The HSA-related changes will also be welcomed and should provide added flexibility. Note that amendments may be needed to take advantage of the changes, depending on how applicable documents are drafted. Employee communication materials will also likely require updating.

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