

The One Big Beautiful Bill: How Will It Impact Your Employees?

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The [One Big Beautiful Bill Act \(OBBB\)](#) was signed into law on July 4, 2025. With far-ranging impacts on taxation and spending, the OBBB will have significant effects on many benefit and compensation plans. Below is a high-level summary of the OBBB's provisions that impact executive compensation and employee benefit programs. These provisions take effect in taxable years beginning after December 31, 2025, unless otherwise noted:

Executive Compensation and Tax Deductibility

- *Section 162(m) Cap Changes*: Internal Revenue Code Section 162(m) is amended to require publicly held corporations to identify the covered employees and remuneration subject to the \$1 million annual deduction limit across all entities in the corporation's "controlled group," as determined under Code Section 414. This is a broader group than under the current Section 162(m) regulations, which consider only the corporation's "affiliated group."
- *Nonprofit 4960 Excise Tax*: Code Section 4960 is modified to provide that applicable tax-exempt organizations will be subject to an excise tax (currently 21%) on (1) remuneration in excess of \$1 million, and (2) certain excess parachute payments paid to any current or former employee employed after December 31, 2016 (not just the five most highly compensated employees of the organization in the current or prior year).

Health and Welfare Benefit Enhancements – HDHPs and HSAs

- *Telehealth Coverage and Health Savings Accounts (HSAs)*: The COVID-19 pandemic safe harbor permitting high deductible health plans (HDHPs) to provide first-dollar coverage of telehealth and other remote health care services without jeopardizing participants' HSA eligibility is permanently extended. The pandemic-era relief expired at the end of 2024; this provision is effective retroactively for plan years beginning on or after January 1, 2025.
- *Marketplace Plan Eligibility*: The types of plans that qualify as HDHPs are expanded to include Bronze and Catastrophic level plans available through the individual Health Marketplace Exchange. This change now permits individuals enrolled in Bronze and Catastrophic Marketplace plans to contribute to an HSA.
- *Direct Primary Care*: Direct primary care service arrangements will not be considered "health plans" and will not preclude individuals from participating in an HSA. A direct primary care service arrangement is medical care consisting solely of primary care services by primary care practitioners in exchange for a fixed periodic fee that does not exceed \$150 per month per employee (\$300 per month for families). In addition, the OBBB expands medical expenses eligible for coverage under an HSA to include direct primary care service fees.

Flexible Spending Accounts and Dependent Care

- *Dependent Care Flexible Spending Accounts (FSAs)*: The annual dependent care FSA limit is increased to

\$7,500 (\$3,750 if married filing separately), with no future adjustment for inflation.

Educational Assistance and Student Loan Repayment

- *Student Loan Repayment:* The ability of employers to offer tax-free student loan repayment assistance under Code Section 127 qualified educational assistance programs, up to \$5,250 per year per employee, is made permanent.

Fringe Benefits

- *Bicycle Commuting and Moving Expenses:* Both (1) the qualified bicycle commuting reimbursement exclusion, and (2) deductions for moving expenses, and the corollary exclusion for employer-provided qualified moving expense reimbursements (with exceptions for members of the armed forces), are permanently eliminated.

“Trump Accounts”

- *New Child Savings Accounts:* The OBBB creates a new form of tax-preferred savings accounts for children under age 18, called “Trump Accounts,” which will operate similarly to individual retirement accounts (IRAs). Annual contributions are capped at \$5,000 per child. Employers can make nontaxable contributions up to \$2,500 per employee. The federal government will provide a \$1,000 one-time seed contribution for children born between 2025 and 2028.

Paid Family and Medical Leave Credit

- *Paid Family Leave:* The paid family and medical leave tax credit under Section 45S is permanently extended. Employers that provide paid family and medical leave may claim the tax credit, which is equal to the percentage of wages paid to qualifying employees while on family and medical leave.

The OBBB delivers significant benefit enhancements — especially to HSAs, FSAs, student loan assistance, and child accounts — while tightening executive compensation tax rules and eliminating certain fringe benefits. Proactive action by employers can turn these changes into tools for talent attraction and retention, while avoiding compliance pitfalls and maximizing tax savings.

Please contact a member of the [Troutman Pepper Locke Employee Benefits + Executive Compensation team](#) with questions related to the OBBB and how this new legislation may impact your company’s benefit programs or compensation packages.

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