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# The One Big Beautiful Bill Act (Tax Reform): Employee Benefits and Executive Compensation Breakdown

**Employee Benefits & Executive Compensation** on **June 3, 2025**

On May 22, 2025, the House of Representatives passed legislation titled "The One Big Beautiful Bill Act" (the "House Bill") (available here), which includes several tax reform provisions. The House Bill is now being considered by the Senate.

If passed by the Senate and signed by the President, the House Bill would extend and/or modify a number of provisions from the 2017 Tax Cuts and Jobs Act ("TCJA"), and it would enact a number of new provisions. The following are key provisions from the House Bill related to employee benefits and executive compensation:

## Employee Benefits Provisions

- **Deductions for Tips**. Taxpayers earning $160,000 or less in 2025 (adjusted for inflation through 2028) would be allowed to deduct cash tips earned from an occupation that "traditionally and customarily received tips before January 1, 2025," subject to certain limits. This deduction would be allowed only for tax years 2025 through 2028. To support the deduction, employers would have to report tip income on employees' Forms W-2 using a special code in Box 12 (in addition to continuing to include this income in Boxes 1, 3, and 5).
- **Deductions for Overtime Compensation**. Taxpayers earning overtime compensation would be allowed to deduct their overtime compensation for tax years 2025 through 2028. To support the deduction, employers would have to report overtime compensation on employees' Forms W-2 using a special code in Box 12 (in addition to continuing to include this income in Boxes 1, 3, and 5).
- **Health Savings Accounts ("HSAs")**. The House Bill includes several provisions that would expand eligibility to contribute to HSAs and make HSAs more flexible, effective for taxable years beginning after December 31, 2025:
  - Would allow individuals who are eligible for Medicare Part A to make or receive contributions to HSAs if they are also enrolled in a high-deductible health plan ("HDHP").

- An individual's spouse being covered by a flexible spending account ("FSA") would no longer disqualify the individual from eligibility to make or receive HSA contributions (subject to limitations).
- Eligibility to receive the following items and services at an employer's clinic (for both the employee and their spouse) would be disregarded for purposes of eligibility to contribute to an HSA: physical exams, immunizations, certain drugs (but not prescribed drugs), treatment for injuries incurred during the course of employment, and preventive care. This means employers would be allowed to offer these items and services with no deductible, but other items and services at an on-site clinic would continue to be subject HSA minimum deductible requirements.
- Would treat certain sports and fitness expenses, such as membership fees and costs associated with physical exercise or activity, as qualified medical expenses that may be reimbursed through an HSA, up to $500 per year for single taxpayers and $1,000 per year for joint or head of household taxpayers (pro-rated on a monthly basis and subject to cost-of-living adjustments beginning in 2027).
- An employee who enrolls in an HDHP and becomes eligible to contribute to an HSA would be allowed to transfer unused FSA and health reimbursement arrangement balances to their HSA (subject to a cap based on the FSA contribution limit).
- An employee who enrolls in an HDHP that is HSA-eligible could use their HSA for expenses incurred any time after joining the HDHP, if they establish their HSA within 60 days after joining the HDHP.
- An individual age 55 or older who is eligible to make their HSA catch-up contributions (up to $1,000) could make their catch-up contributions to their spouse's HSA.
- Would increase (in many cases double) the HSA contribution cap for individuals and families with taxable income less than a certain threshold ($75,000 for single taxpayers and $150,000 for joint filer taxpayers, with phase-outs ending at $100,000 and $200,000, respectively). The threshold would be indexed for inflation.

- **Health Reimbursement Arrangements ("HRAs")**. The House Bill includes the following changes to HRA rules to make HRAs more flexible, effective for taxable years beginning after December 31, 2025:

    - Would codify the IRS's final rules permitting employers to offer individual coverage HRAs (which would be renamed Custom Health Option and Individual Care Expense, or "CHOICE" arrangements). This would permit employees enrolled in a CHOICE arrangement through a cafeteria plan to purchase health insurance coverage on the individual healthcare exchange marketplaces with pre-tax dollars.
    - A credit would generally be available to employers with less than 50 full-time employees and that have employees enrolled in a CHOICE arrangement. For the first year of the credit period, the credit would be $100 (adjusted for inflation beginning in 2027) per month per employee that is enrolled in a CHOICE arrangement, and, for the second year of the credit period, the credit would be one-half of the amount determined for the first year.

- **Tuition and Student Loan Reimbursements**. The House Bill would make permanent the ability to reimburse student loan payments under a Section 127 education assistance program (rather than letting that feature of Section 127 programs expire on December 31, 2025). In addition, the House Bill would provide inflation adjustments beginning in 2027 to the $5,250 limit on pre-tax reimbursements for qualifying education expenses (including student loans).
- **UBTI for Qualified Transportation Fringe Benefits**. Tax-exempt organizations would have to recognize UBTI for amounts incurred for qualified transportation fringe benefits or any parking facility that is not directly connected to the organization's unrelated trade or business. The change is economically comparable to a for-profit entity not being allowed to deduct these expenses (which is the rule under Section 274(a)(4)) and would apply for taxable years beginning after December 31, 2025.
- **Employer-Provided Child Care Credit**. The maximum tax credit employers would be allowed for providing qualified child care would be increased from $150,000 to $500,000 ($600,000 for eligible small businesses), adjusted for inflation beginning in 2027. The change would apply for taxable years beginning after December 31, 2025.
- **Paid Family and Medical Leave Credit**. The House Bill would make permanent the employer tax credit for a percentage of wages paid to qualifying employees while they are on paid family and medical leave (rather than letting it expire on December 31, 2025). In addition, the value of the credit would be expanded to include a percentage of premiums paid for certain insurance policies. The change would apply for taxable years beginning after December 31, 2025.

- **Reimbursements for Moving Expenses Would Continue to be Taxable**. Before the enactment of the TCJA, qualified moving expense reimbursements were excluded from employees' income and the paying employer could deduct the expenses. The TCJA eliminated that treatment (resulting in employees having to pay tax on moving expense reimbursements), except in the case of active duty members of the armed forces. The House Bill would make the TCJA's changes permanent (rather than letting them expire at the end of 2025).
- **Bicycle Commuting Reimbursements Would Continue to be Taxable**. Reimbursements of bicycle commuting expenses would continue to be taxable. Before the enactment of the TCJA, certain reimbursements were not taxable.

## Executive Compensation Provisions

- **Deduction for Excessive Employee Compensation**. The aggregation rule under Section 162(m), which currently applies for (a) identifying a corporation's covered employees and (b) determining compensation that is subject to Section 162(m), would be expanded to pick up all members of a covered corporation's controlled group and affiliated service group under Section 414(b), (c), (m) and (o) (a broader group than under the existing aggregation rule). The amount of deductible compensation would be allocated to each member of the controlled group or affiliated service group based on the pro-rata portion of the total compensation paid by that member. The change would apply for taxable years beginning after December 31, 2025.
- **Tax-Exempt Organization Excessive Employee Compensation Excise Tax**. The excise tax that tax-exempt organizations must pay on compensation in excess of $1 million paid to employees would be expanded to apply with respect to all current and former employees of the tax-exempt organization, even if they were never among the top 5 highest paid. The change would apply for taxable years beginning after December 31, 2025.
- **Alternative Minimum Tax Exemption**. The House Bill would extend indefinitely the increased alternative minimum tax ("AMT") exemptions that were added by the TCJA and set to expire after December 31, 2025. This is relevant for employees who exercise incentive stock options, which are not recognized for income and FICA tax purposes but are recognized for AMT purposes.

As noted above, the House Bill is currently being considered by the Senate, which is expected to make changes. If the Senate passes a modified version of the House Bill, the legislation would then have to go back to the House for another vote because both chambers must pass the exact same legislation. We are continuing to monitor developments in the legislative process.

View original.

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