Kicking Off
The One Big Beautiful Bill (OBBB): A Game Plan For HR Professionals

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Better Benefits. Stronger Families.
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About Your Presenter:
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- President of Admin America, Inc.
  - Independent Third-Party Administrator based in Alpharetta
  - Specializing in FSA, HRA, HSA and COBRA Administration
  - Also consults on ERISA, ACA and HIPAA compliance
- 29 Years of Employee Benefits Consulting Experience
- Native of Atlanta – Lifelong Georgia Resident
- Member of the State Bar of Georgia
- Graduate of Vanderbilt University, the University of Georgia School of Law and Georgia State University College of Business
- Loves to travel and attend sporting events

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Today's Game Plan

- Familiarize ourselves with changes introduced by the One Big Beautiful Bill (OBBB) – and some that didn't quite get over the goal line.
- Identify the changes that will impact each of us directly, prepare for employee questions, and start planning required policy changes.
- Identify opportunities to improve our organizations' talent acquisition and retention strategy.

Today's OBBB Topics

- Payroll-Adjacent Changes: **No Tax On ….**
- Health Savings Accounts & Coverage Flexibility
- Family Care & Leave-Related Tax Credits
- Education Benefits & Student Debt
- New Trump Accounts
- Sunsetting Tax Breaks
- Key Takeaways & Q&A

Payroll-Adjacent Changes

- “No Tax On Tips” and “No Tax On Overtime”
- Above-the-line federal tax deductions.
  - i.e., for standard deductors or itemizers
- Both currently apply only for 2025-2028.
- Neither impacts FICA payroll taxes.
- Both begin phasing out for Modified Adjusted Gross Incomes (MAGI) above $150K
  - $300K for joint filers
  - $100 phase out for each additional $1K MAGI

"No Tax On Tips"

- Up to **$25,000** per year deductible (per tax return).
- Married taxpayers must file joint return to deduct.
- Applies to **"Qualified Tip Income"** only
  - Voluntary cash (or charged) tips received by an individual in an occupation that "customarily and regularly" received tips on or before December 31, 2024
    - Relevant regulations to be issued by October 2, 2025 **(BOLO!)**
  - Must be paid voluntarily by a third party without consequence for non-payment
    - Will not apply to mandatory tips (i.e., 18% for parties of 6 or more)
  - Also does not apply to certain Service Trade Or Businesses as defined by Code Section 199A (typically highly skilled pros)
- Employers must report Qualified Tips on W2 but will be permitted to reasonably "approximate" for 2025.

“No Tax On Overtime”

- Up to **$12,500** per year ($25,000 if filing jointly).
- Only applies to federally required additional hourly compensation for overtime worked.
  - Does not apply to normal hourly rate for overtime hours worked (just the “half” in “time and a half”.
  - Does not apply to state mandated or collectively bargained overtime additional hourly compensation.
- Employers will be required to report qualified overtime on W2 but will be permitted to reasonably “approximate” for 2025.

Health Savings Accounts & Coverage Flexibility

- Effective January 1, 2025
  - Individuals can use telehealth services without affecting HSA contribution eligibility.
- Effective January 1, 2026
  - Any Bronze or Catastrophic <u>individual</u> plan offered on a state insurance exchange under the ACA will be considered HSA-qualified HDHP coverage.
  - HSA eligible individuals may participate in Direct Primary Care (DPC) Arrangements.
  - HSA funds can be used tax-free to pay DPC fees.

Health Savings Accounts – "This Too Shall Not Pass"

- Contribution eligibility for individuals enrolled only in Medicare Part A.
- Gym memberships as qualifying expenses.
- Shared accounts for Spousal Catch-Up Contributions.
- FSA/HRA to HSA rollover transfers.
- HSA eligibility with Spouse's FSA enrollment.

Family Care & Leave-Related Tax Credits

- Dependent Care FSA limits increase.
- Increased employer-provided childcare credit.
- Permanent extension and expansion of employer tax credit for paid family and medical leave.

Dependent Care FSA Limit Increase

- 2026 household limit increases to $7,500.
  - Up from $5,000 which was set in 1986.
  - Increase is <u>not</u> indexed to inflation but is permanent.
  - Married individuals filing separately continue to be capped at 50% of the statutory limit.

Employer Provided Childcare Credit

- Beginning in 2026, employers can claim credits of:
  - Up to 40% of qualified child car expenses, up to a maximum credit of $500,000.
  - These amounts increase to 50% and $600,000 for eligible small businesses (average revenue less than $31M over 5 years).
  - These amounts are indexed for inflation.
- In 2025, the credits were only 25% up to a maximum credit of $150,000.
- These tax credits are not refundable but can be carried forward up to 20 years (or back for one year).

Employer Tax Credit For Paid Family and Medical Leave

- Makes permanent previously available tax credits for employer paid family and medical leave of 2-12 weeks.
- Employee must have worked for employer for at least a six months and 2026 income can't exceed $96K.
  - reduced from a year but employer can choose to still require full year.
- Requires a written policy.
- Credit is at least 12.5% of eligible leave wages paid.
  - Increases by .25% for each full percentage point above 50% of the employee's wages that are paid.
  - Maximum credit (for payment of 100% of normal wages would be 25%.
- No credit for payments made to comply with state law but excess payments are now eligible.
- Alternatively, employer can now claim credit for insurance premiums paid instead of wages – <u>but not both</u>.

Education Benefits & Student Debt

- Since 1979, employers could provide up to $5,250 of tax-exempt educational assistance
  - Includes tuition, fees, books, supplies & equipment.
  - Must be under a non-discriminatory written plan.
  - Must be communicated to all eligible employees.
  - OBBB indexes the amount to inflation so it will begin to increase in $50 increments after 2026.
- OBBB also makes permanent the eligibility of an employee's qualified student loan payments as eligible educational expenses.
  - This was set to expire at the end of 2025.

New Trump Accounts

- Essentially an IRA head start for newborns.
- Accounts can be opened beginning July 4, 2026. Happy Semiquincentennial!
- Through the year in which the child turns 17, up to $5,000 per year can be contributed to the account.
- The U.S. government will seed $1,000 into accounts for U.S. citizens born in 2025 through 2028. The $1,000 does not count against the $5,000 limit.
- Contributions from parents, relatives or friends of the child are nondeductible.
- **Contributions of up to $2,500/year from a parent's employer are tax exempt.**
- Also, state and local governments and charities can make contributions that do not count against the $5,000 limit. These must be made equally to eligible classes of children (age or geography).
- No withdrawals can be made until the child turns 18 (or dies).
- After the child reaches 18, normal IRA rules apply except any post-tax contributions can be removed tax free (subject to a 10% early withdrawal penalty before age 59 ½).

Sunsetting Employment Related Tax Breaks

- Meals provided for convenience no longer deductible
- Several previously suspended breaks that were supposed to resume in 2026 were permanently repealed.
  - Moving expense deduction for employers
  - Moving expense reimbursement for employees
  - Employer deductibility of costs to provide qualified transportation fringe benefits
    - Eligible parking, mass transit and van-pooling reimbursements remain tax exempt for employees though.
  - $20 monthly exclusion from employee income for Qualified Bicycle Commuting reimbursements

Meals Provided For Employee Convenience

- The following types of meal expenses will no longer be deductible beginning in 2026:
  - on-site cafeteria expenses
  - Meals provided on business premises for the employer's convenience including meals provided during extended hours and emergencies
  - De minimus fringe benefits such as coffee and breakroom snack.
  - Exceptions for restaurants and fishing vessels.
- 50% deduction will continue to be allowed for meals while traveling and client/prospect meals.

Key Takeaways & Action Items

- Consider any required modifications to tip policies to maximize deductibility for employees (i.e. required tips).
- Prepare tracking and reporting systems for tips and overtime pay for 2025 W2s.
- Prepare Employee Handouts clarifying “No Tax on Tips” and “No Tax on Overtime” details to avoid confusion.
- Telehealth service availability should be addressed with group health plan administrator ASAP.
- Consider impact of Bronze and Catastrophic Plan HSA compatibility on potential ICHRA strategy.
- Update FSA documents (SPDs and election forms) to accommodate new $7,500 annual limit.

Key Takeaways & Action Items (Continued)

- Weigh potential recruiting and retention benefits of offering newly enhanced or extended benefits.
  – Employer provided childcare.
  – Paid Family and Medical Leave.
  – Education and Student Loan Repayment Benefits.
  – Trump Account contributions for employee's children.
- Communicate any meal related policy changes to employees before the beginning of 2026.
- Lastly, expect some changes through the regulatory process or "non-enforcement" announcements by the Treasury Department/IRS.

Questions?

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