Labor and Employment Provisions Under the One Big Beautiful Bill Act

President Trump signed H.R.1 - One Big Beautiful Bill Act (the "Act") on July 4, 2025, introducing several significant changes for employers and employees in areas such as taxation, benefits, and eligibility programs. Many provisions are retroactive to January 1, 2025, and sunset on December 31, 2028. The IRS and Treasury Department are expected to issue guidance in the coming weeks. Below is an updated and expanded summary of the Act's key labor and employment-related provisions.

Tips Deduction (Effective Tax Years 2025–2028)
Beginning with tax year 2025 and continuing through 2028, employees who regularly receive voluntary tips in qualifying tipped occupations may deduct up to $25,000 of those tips from their gross income for federal income tax purposes. Only voluntary tips are eligible—mandatory service charges, such as automatic gratuities, do not qualify.

This deduction does not apply to payroll taxes, so employers must continue withholding and reporting FICA taxes on all tip income as usual. Tip earnings must still be reported on Form W-2, and while the IRS plans to release an updated version of the form, the timing is not yet known. Until new withholding tables are issued, employers should continue withholding federal income tax on all tipped wages as they currently do—no payroll processing changes are required at this time.

The IRS is expected to publish a list of qualifying tipped occupations by October 2, 2025 (within 90 days of the law's enactment), and as currently written, the law does not exclude back-of-house employees who receive tips through a valid tip pooling arrangement.

This deduction is claimed by employees when they file their personal income tax returns—there will be no retroactive payroll adjustments—and for the 2025 tax year specifically, limited flexibility in Form W-2 reporting will be allowed. Employees will be prohibited from claiming both the tip deduction and an overtime pay deduction on the same income.

Overtime Deduction (Effective Tax Years 2025–2028)
Employees may deduct up to $12,500 in federally mandated overtime pay from their gross income, or $25,000 for joint filers. This deduction only applies to overtime premiums required under the Fair Labor Standards Act (FLSA)—it does not cover overtime under state laws or collective bargaining agreements (CBAs).

Employers must report overtime separately on Form W-2, and as with tips, FICA taxes still apply. The IRS is expected to update withholding tables by 2026, but until then, normal withholding continues.

Employees who wish to take advantage of this deduction may need to track and allocate their overtime income separately to ensure accurate reporting and compliance when claiming the deduction on their tax returns.

Dependent Care Flexible Spending Account (FSA) Increase
Effective January 1, 2026, the annual contribution limit for Dependent Care Flexible Spending Accounts (FSAs) will permanently increase from $5,000 to $7,500 ($3,750 for married individuals filing separately). Unlike the temporary increases enacted during the pandemic, this change is permanent. Employers must update their Section 125 cafeteria plans accordingly to maintain compliance with IRS regulations.

Health Savings Account (HSA) Expansion
The Act expands Health Savings Account (HSA) access and flexibility, with several provisions taking effect beginning January 1, 2026:

- Pre-deductible telehealth coverage is permanently allowed under high-deductible health plans (HDHPs) without jeopardizing HSA eligibility; applied retroactively to January 1, 2025.
- ACA marketplace Bronze and Catastrophic plans will be treated as HDHPs, allowing enrollees in these plans to qualify for HSAs.
- Direct Primary Care Arrangement (DPCA) fees, up to $150 per month for individuals and $300 for families, will be recognized as reimbursable qualified medical expenses. Participation in a DPCA does not disqualify individuals from contributing to an HSA.
- HSA contribution limits may increase beyond current IRS thresholds, and family HSA pooling may be permitted for dependents and spouses covered under the same health plan.

The Treasury Department and IRS are expected to issue further regulations to clarify the implementation of these provisions.

Education Assistance Program and Student Loan Repayment
Starting in 2026, the current $5,250 tax-free limit on employer-provided educational benefits, covering tuition, fees, books, and other related expenses, will be indexed for inflation. Additionally, the Act makes permanent the Cares Act provision for employer-

paid student loan repayments (previously set to expire January 1, 2026), meaning payments toward employees' qualified student loans will remain tax-free to the employee indefinitely. Beginning in 2027, this benefit will also increase annually with inflation.

Medicaid Work Requirement

The Act establishes new work-related eligibility requirements for adults in the Medicaid expansion population, beginning no later than the first quarter of 2027 though individual States may opt to implement them sooner. Non-exempt individuals must engage in employment, job training, approved volunteer activities, or be enrolled in an education program, for a minimum of 80 hours per month. Employer obligations are not yet known, but they will likely be tasked with verifying an employee's work hours, under the employment requirement, as part of Medicaid eligibility determinations.

Trump Accounts

Beginning in 2026, minors under age 18 will be able to open a custodial retirement savings account known as a Trump Account. These accounts allow annual contributions of up to $5,000 from parents, the child, or other individuals, along with additional contributions of up to $2,500 per year from employers. While the program becomes effective in 2026, no contributions can be made before July 4, 2026. To jump-start savings, the federal government will make a one-time $1,000 seed contribution for children born between 2025 and 2028.

Paid Family Medical Leave Credit

The Act permanently extends and enhances the federal Paid Family and Medical Leave (PFML) Tax Credit under Section 45S of the Internal Revenue Code, originally set to expire in 2025. Beginning in 2026, employers may continue to claim a tax credit ranging from 12.5% to 25% of wages paid to employees taking qualified family or medical leave, provided at least 50% of the employee's normal wages are paid during the leave period. The law also expands flexibility by allowing employers to elect the credit based on premiums paid to insurance carriers offering PFML-compliant policies (though employers must choose between claiming the credit on wages or premiums, not both). Eligibility for employees is expanded as well: workers now qualify after just six months of employment, rather than the previous 12-month requirement, and both full- and part-time employees are covered (with part-time pro-rated). Additionally, the Act reinforces that the credit applies only to FMLA-type leave (e.g., parental leave, medical caregiving) and does not include general sick or vacation time.

Qualified Transportation Expenses
Starting in 2026, the small tax-free benefit (up to $20 per month) that some employers gave to bike commuters is being eliminated permanently. Additionally, the Act updates how annual inflation adjustments are calculated for transportation benefits like parking and transit passes by changing the base year used in the formula.

Please contact our HR Department at 888-828-5511, option 7, if you need further guidance or if you have any questions or concerns about these updates.