THE MAHONEY GROUP

COMPLIANCE BULLETIN

OBBB Unpacked

What "One Big Beautiful Bill" Means for Employee Benefits

On Independence Day 2025, President Trump signed into law the "One Big Beautiful Bill" (OBBB), a sweeping piece of legislation that has mostly garnered headlines for its dramatic tax reform. But buried beneath the tax code fireworks lies a dense but meaningful series of updates to employee benefit plans. From telehealth and HSAs to dependent care FSAs and a brand-new concept dubbed "Trump Accounts," OBBB reshapes several corners of the benefits landscape.

Most provisions will take effect as of **January 1, 2026**, although a few will be implemented sooner. Here's a focused breakdown of the bill's major employee benefit components and the potential implications for employers navigating this evolving terrain.

Telehealth Carve-Out Codified (Retroactive to Jan. 1, 2025)

Remember that pandemic-era allowance allowing high-deductible health plans (HDHPs) to cover telehealth visits *before* participants met their deductibles? This relief originally expired beginning in 2025. The OBBB retroactively and permanently reenacted this provision, effective for plan years beginning after December 31, 2024, allowing (but not requiring) plans to provide coverage for telehealth benefits under an HDHP prior to satisfaction of the deductible.

For Plan Sponsors: Employers who pivoted to charging HDHP members fair market rates for virtual care may want to reevaluate. They can either stick with that approach or retroactively reimburse members for 2025 out-of-pocket telehealth costs.

HSAs Get Broader Access via Bronze Plans and DPC Models (Effective 2026)

In a notable shift, all Bronze and Catastrophic plans sold on the public Exchanges will now qualify as HDHPs even if the annual out-of-pocket spending limits exceed the limits permitted for HSA-compatible HDHPs. This unlocks HSA eligibility for more individuals, bringing meaningful cost-savings potential to younger, healthier enrollees, who often opt for lower-premium coverage.

The bill also finally resolves the long-running debate over whether direct primary care (DPC) models are "disqualifying coverage" for HSA purposes. Under OBBB, fixed-fee DPC services—so long as they steer clear of surgery, general anesthesia, and prescription dispensing—will no longer disqualify participants from contributing to an HSA. In fact, those monthly DPC fees can be reimbursed from the HSA itself, provided they remain under set dollar thresholds of $150/month per individual or $300/family.

Dependent Care FSA Limit Bumped for the First Time in Nearly 40 Years

Starting in 2026, the annual dependent care FSA contribution limit will rise to $7,500 (or $3,750 for married filing separately). This marks the first permanent increase since 1986. While not indexed for inflation, the jump gives families more room to save pre-tax dollars for childcare.

The OBBB also sweetens the tax credit employers may take for providing workplace-based childcare, tripling the cap from $150,000 to $500,000 (or $600,000 for small employers), and increasing the eligible expense match from 25% to 40%.

Dependent Care FSA Limit Bumped, continued

Plan Sponsor Tip: Update FSA communications for open enrollment and prepare for any ripple effects in nondiscrimination testing, particularly the 55% average benefits test. That said, this limit change may offer only modest relief there, as most high earners were already maxing out their contributions.

Education and Student Loan Benefits Enhanced

The law makes permanent a series of educational benefits that were set to expire. Student loan repayment support, first authorized in 2017, can now continue indefinitely under Section 127 tax-free educational assistance plans. The $5,250 annual cap will now adjust for inflation.

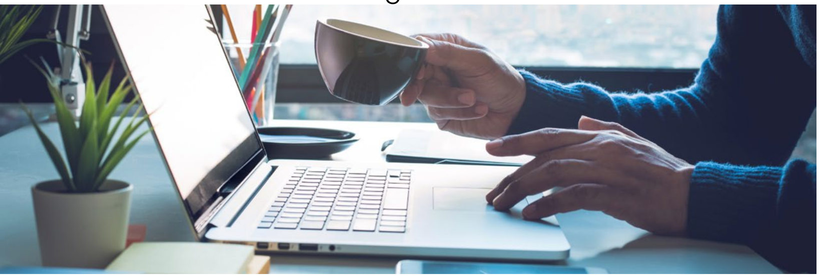
ABLE accounts also see multiple upgrades: a permanent saver's credit, expanded rollover allowances from 529 plans, and indexed contribution limits. Separately, the list of 529-qualified education expenses expands to include many non-tuition K–12 and credentialing costs (e.g., books, online courses, tutoring), while the reimbursement cap for K–12 tuition increases from $10,000 to $20,000.

Introducing "Trump Accounts" (Effective 2026)

In one of the bill's more headline-grabbing inclusions, OBBB establishes tax-advantaged savings vehicles for children under age 18, dubbed Trump Accounts. Contributions are capped at $5,000 per year (indexed), with early withdrawals barred before age 18. Employers can contribute up to $2,500 per child per year, tax-free.

A federal "birth bonus" of $1,000 will be automatically seeded into each Trump Account for U.S. citizen children born between 2025 and 2028.

Plan Sponsor Tip: While optional, employer contributions to Trump Accounts may resonate with younger or growing families in the workforce. Consider the demographics of your employee base before deciding.



Fringe Benefit Clean-Up: Bicycle Commuting and Moving Expenses Out

The bill formally eliminates the tax-free bike commuting benefit and repeals the moving expense deduction, except for certain military and intelligence personnel. Companies that still want to encourage cycling to work may do so, but any related payments will now be fully taxable.

Tighter Rules on ACA Premium Tax Credits

The OBBB narrows eligibility and tightens compliance for those seeking premium tax credits under the Affordable Care Act. Starting in 2026:

- Individuals enrolling via certain special enrollment periods will no longer qualify.
- There will be no cap on repayment for excess credits received; full repayment will now be required.
- Beginning in 2028, recipients must actively reverify eligibility each year.
- Only individuals lawfully present in the U.S. will qualify going forward.

Compensation Rules Get a Haircut

Changes to IRC Section 162(m) will now treat controlled and affiliated service groups as a single employer for executive pay deductibility. Compensation above the $1 million mark will be subject to tighter aggregation and pro-rata allocation across entities.

The OBBB also expands the reach of the 21% excise tax under Section 4960 for excessive pay at tax-exempt entities, applying it more broadly and ensuring parachute payments don't slip through unnoticed.

Paid Family and Medical Leave Credit: Here to Stay

The temporary employer tax credit for offering paid family and medical leave has been made permanent. The minimum eligibility window for employees has also been shortened from one year of service to just six months, making the benefit more accessible for workers and possibly more administratively complex for employers.

Final Thoughts

While the OBBB will be remembered for reshaping the tax landscape, its less-publicized reforms to employee benefits are equally consequential. Employers and advisors should begin planning now, particularly around plan amendments, open enrollment messaging, and workforce education. The rules are shifting again, and being ahead of them could be the difference between compliance and chaos. Your Mahoney Group team will be addressing these changes with you as you move into your 2026 plans.