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Compliance Connection

July 2025

Federal Compliance Update

The "One Big Beautiful Bill Act" Includes Changes for Employee Benefits

On July 4, 2025, President Donald Trump signed a major tax and spending bill, commonly referred to as the "One Big Beautiful Bill Act" (OBBB Act), into law. The OBBB Act includes changes for employee benefit plans, including provisions that:

- Expand the availability of health savings accounts (HSAs);
- Permanently extend the telehealth exception for high deductible health plans (HDHPs);
- Increase the maximum annual limit for dependent care flexible spending accounts (FSAs);
- Allow employers to help pay employees' student loans beyond 2025 and make cost-of-living adjustments to the tax exclusion for educational assistance programs; and
- Allow employers to contribute up to $2,500 per year to a new type of tax-advantaged account for children, called a "Trump Account."

HSA Expansion

Only eligible individuals can establish HSAs and make HSA contributions (or have them made on their behalf). To be HSA-eligible, an individual must:

- Be covered by an HDHP;
- Not be covered by any health plan that provides coverage below the minimum required HDHP deductible, with some limited exceptions;
- Not be enrolled in Medicare; and
- Not be eligible to be claimed as a dependent on another person's tax return.

Effective Jan. 1, 2026, the OBBB Act expands HSA eligibility by allowing individuals with direct primary care (DPC) arrangements to make HSA contributions if their monthly fees are $150 or less ($300 or less for family coverage). These dollar limits will be adjusted annually for inflation. A DPC arrangement is a subscription-based health care delivery model where an individual is charged a fixed periodic fee for access to medical care consisting solely of primary care services. In addition, the OBBB Act treats DPC fees as a medical care expense that can be paid for using HSA funds.

Also, to expand the accessibility of HSAs in the individual market, the OBBB Act categorizes as HDHPs all bronze plans and catastrophic plans that are available through an Affordable Care Act (ACA) Exchange. This change is effective Jan. 1, 2026.Bronze plans have the highest deductibles and lowest premiums among the four categories (or metal levels) of individual plans. Catastrophic plans have lower premiums than bronze plans and very high deductibles.

Expands and Makes Permanent Employer Tax Credit for PFML

The OBBBA affected a tax code provision that allows employers to take a credit for their paid family and medical leave (PFML) expenditures. In brief, the OBBBA makes the tax credit permanent and broadens its coverage to PFML insurance premiums and leave taken by newer employees than previously allowed, among other changes. The amendments apply to taxable years beginning after Dec. 31, 2025.

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Background: PFML Tax Credit
The PFML tax credit was included in the 2017 Tax Cuts and Jobs Act. Prior to the amendments, it was equal to a percentage of wages paid through Dec. 31, 2025, to qualifying employees who took family and medical leave.

Employers must provide at least two weeks of paid family and medical leave at a payment rate that is at least 50% of an employee's normal pay rate for the credit to apply. As it currently stands, before the amendments take effect ,the credit does not apply to leave required by state or local law or paid for by state or local governments. It also does not apply to vacation leave, personal leave or sick leave.

OBBBA Amendments
Most importantly, the OBBBA makes the PFML tax credit permanent by removing the sunset provision that would have seen the credit expire at the end of 2025.

The OBBBA amended the tax credit in other ways, including by allowing employers with PFML insurance to take the credit for a percentage of their premiums. As part of a growing trend, states have begun allowing insurance carriers to sell employers policies that cover the cost of PFML provided voluntarily. Moreover, the OBBBA allows the PFML tax credit for this premium expense even if none of the employer's workers actually take PFML.

Under the amendments, leave paid by a state or local government or required by state or local law will be taken into account in determining the amount of PFML provided by the employer, but not in determining the amount of the tax credit. Furthermore, the tax credit was previously available only for PFML taken by employees who had worked for the employer for at least one year. Under the OBBBA amendments, the work tenure requirement is reduced to six months. Another amendment stipulates that the PFML credit will apply only to leave taken by employees who work at least 20 hours per week.

Next Steps for Employers
Employers that provide PFML voluntarily should review the amendments and their leave policies to determine whether they qualify for this potentially valuable tax credit. **Please discuss these provisions with your tax professionals.**

Educational Assistance Programs – Student Loans
Employers can offer programs to provide employees with undergraduate or graduate-level educational assistance. Educational assistance programs can pay for employees' books, equipment, supplies, tuition and other fees. Also, these programs can pay principal and interest on employees' student loans. The option to use educational assistance programs for student loans was set to expire on Dec. 31, 2025. However, the OBBB Act permanently extends this student loan payment option.

Also, tax-free benefits under an educational assistance program are limited to $5,250 per employee per year. Typically, educational assistance provided above this level is taxable as wages. Effective for taxable years beginning after 2026, the OBBB Act annually adjusts the $5,250 limit for inflation.

Tip Deductions
Section 70201 of the OBBBA creates a new above-the-line tax deduction for qualified tips. Individuals must earn $150,000 or less ($300,000 if married filing jointly) in 2025 to be eligible for the tip deduction. The maximum deduction for tip income is capped at $25,000 per year, and the deduction only applies to cash tips, which include tips that are charged and tips received under a tip-sharing agreement. To be considered a qualified tip, the tip must be paid voluntarily without any consequence in the event of nonpayment, not be subject to negotiation, and be determined by the payor.

To qualify for the tip deduction, individuals must work in occupations where receiving tips is customary (e.g., servers, bartenders, hotel staff, hairstylists) on or before Dec. 31, 2024. The Treasury Department will publish a list of qualifying occupations within 90 days of the OBBBA's enactment. Qualified tips must be reported on statements furnished to the individual as required under the Internal Revenue Code (e.g., Form W-2) or on Form 4137. The OBBBA does not change the requirement that employees and employers report all tips to the IRS. Individuals must include their Social Security number(and, if married and filing jointly, their spouse's Social Security number) on their tax return to receive the deduction.

Overtime Deductions
Section 70202 of the OBBBA establishes a new above-the-line tax deduction for qualified overtime compensation. The OBBBA defines "qualified overtime compensation" as overtime compensation paid to an individual required under Section 7 of the Fair Labor Standards Act (FLSA) that is in excess of the regular rate at which the individual is paid. The maximum deduction for overtime income is capped at $12,500 per year ($25,000 per year if married filing jointly). The deduction decreases for those earning over $150,000 per year. Employers must include the total amount of qualified overtime compensation as a separate line item on employees' Form W-2. Qualified tips cannot be claimed as qualified overtime compensation. Similar to qualified tips, individuals must include their Social Security number (and, if married and filing jointly, their spouse's Social Security number) on their tax return to receive the deduction.

Next Steps for Employers
Employers may need to adjust their payroll systems to accurately track and report qualifying tips and overtime compensation on employees' Forms W-2.

Trump Accounts
The OBBB Act creates a new type of tax-advantaged savings account for children under age 18, named a "Trump Account. "Effective in 2026, Trump Accounts will operate similarly to individual retirement accounts, or IRAs, where earnings grow tax-deferred. In general, annual contributions are limited to **$**5,000 per child (as adjusted annually for inflation beginning after2027). The OBBB Act provides that children born in 2025-2028 may be eligible to receive a special $1,000 contribution from the federal government.

Employers may make tax-free contributions to the Trump Account of an employee or an employee's dependent of up to$2,500 per year (as adjusted annually for inflation beginning after 2027). These programs will require a written plan document and will be subject to some of the same tax rules that apply to dependent care FSAs, such as annual nondiscrimination testing and employee notifications.

DOL Launches Self-audit Program
On July 24, 2025, the U.S. Department of Labor (DOL) announced several self-audit programs designed to help employers, unions and pension plans voluntarily assess and improve their compliance with federal labor laws.

DOL Self-audit Programs
The DOL self-audit programs include programs from six federal agencies. In its announcement, the DOL highlights new, updated and preexisting programs that employers may use to assess and voluntarily correct violations of federal labor laws and reduce the risk of formal investigations or litigation. The following agencies offer self-audit programs:

- Employee Benefits Security Administration (EBSA)—EBSA allows employers to correct employee benefit plan violations under the:
  - Voluntary Fiduciary Correction Program, which encourages employers and plan officials to voluntarily correct violations of the Employee Retirement Income Security Act (ERISA); and
  - Delinquent Filer Voluntary Compliance Program, which encourages compliance with ERISA's annual reporting requirements and offers incentives to late filers, including reduced penalties;

- Mine Safety and Health Administration (MSHA)—MSHA launched a new Compliance Assistance in Safety and Health program that provides resources for various safety and health compliance topics;
- Occupational Safety and Health Administration (OSHA)—OSHA is expanding its Voluntary Protection Programs, which allow businesses to undergo regular self-evaluations to avoid routine inspections. OSHA is also increasing efforts to support voluntary compliance through its On-Site Consultation Program, which offers no-cost and confidential safety and health services to small and medium-sized businesses;
- Office of Labor-Management Standards (OLMS)—OLMS allows unions to self-assess compliance with the Labor-Management Reporting and Disclosure Act under its Voluntary Compliance Partnership program;
- Veterans' Employment and Training Service (VETS)—VETS launched a new program, SALUTE: Support and Assistance for Leaders in USERRA Training and Employment, for employers to review their policies and practices under the Uniformed Services Employment and Reemployment Rights Act; and

- Wage and Hour Division (WHD)—The WHD is restarting the Payroll Audit and Independent Determination program for employers to identify and correct minimum wage, overtime and leave violations under the Fair Labor Standards Act and Family and Medical Leave Act.

Employers Takeaways
Employers may choose to take advantage of the self-audit programs offered by the above agencies, as applicable, to identify and correct legal violations. For additional resources, toolkits and program-specific guidance, employers may visit the DOL's self-audit programs website.

Supreme Court Case to Consider – Ames v. Ohio Department of Youth Services

In the unanimous decision on June 5, 2025, the U.S. Supreme Court ruled that employers cannot apply different legal standards to "reverse discrimination" claims, such as those brought by heterosexual or white employees under Title VII of the Civil Rights Act. The case, *Ames v. Ohio Department of Youth Services*—struck down the longstanding judicial requirement that majority-group plaintiffs must provide special "background circumstances" to support their claims.

Bottom Line: Discrimination protections apply equally, regardless of the employee's race, gender, or sexual orientation. Your DEI initiatives, hiring practices, and promotion criteria must reflect this legal neutrality.

Case Overview
- Plaintiff: Marlean Ames, a heterosexual woman employed by a state agency in Ohio.
- Claim: Ames alleged she was passed over for a promotion and subsequently demoted in favor of LGBTQ+ colleagues, based on her sexual orientation.
- Initial Legal Barrier: Lower courts required Ames to prove an "unusual" background suggesting bias against straight people—a hurdle not imposed on minority plaintiffs.
- Supreme Court Ruling: The Court unanimously rejected this extra requirement, stating that all employees are entitled to equal legal footing under Title VII.

Key Implications for HR and Employers
Equal Application of Discrimination Laws
HR teams must treat all discrimination complaints under the same legal standard, whether from a minority or majority-group employee. This means:
- No higher proof thresholds for majority-group complainants.
- Uniform use of internal complaint procedures, investigation protocols, and documentation.

"Neutrality is the foundation of Title VII enforcement," said the Court.

DEI Programs Must Avoid Disparate Treatment
Diversity, Equity, and Inclusion (DEI) efforts are still lawful, but cannot lead to preferential treatment based on protected characteristics. Risk areas include:
- Promotions or hiring explicitly favoring certain demographics.
- Quotas or language in job postings that exclude majority-group candidates.
- Performance reviews or advancement tracks that factor in non-merit-based criteria tied to identity.

Update Policies, Training, and Complaint Procedures
Ensure your anti-discrimination and EEO policies:
- Emphasize neutrality in enforcement.
- Are applied consistently, regardless of an employee's identity.
- Are backed by up-to-date manager and HR training.

Protect Your Organization from Legal Risk
This ruling will likely result in an uptick in lawsuits from majority-group employees who previously faced legal hurdles. To mitigate risk:
- Train leaders to make promotion, hiring, and termination decisions based solely on job-related factors.
- Document objective criteria for decisions and retain records.
- Avoid any appearance of identity-based favoritism, even if intended to support diversity.

Employer Takeaways

The *Ames* ruling is a wake-up call to anchor DEI and HR practices firmly in legal compliance and equal treatment. It doesn't dismantle diversity efforts; it simply emphasizes that equity must be universal.

HR leaders and business owners should act now to assess internal practices and ensure they comply with the evolving legal standards.

DOL Issues Updated Model Employer CHIP Notice

The Department of Labor (DOL), through its Employee Benefits Security Administration (EBSA), has released a new model Employer CHIP Notice within formation current as of July 31, 2025.

As a reminder, the Children's Health Insurance Program Reauthorization Act of2009 (CHIPRA) imposes an annual notice requirement on employers that maintain group health plans in states that provide premium assistance subsidies under a Medicaid plan or a Children's Health Insurance Plan (CHIP). An employer can choose to provide the notice on its own or concurrent with the furnishing of:

- Materials notifying the employee of health plan eligibility;
- Materials provided to the employee in connection with an open season or election process conducted under the plan; or
- The summary plan description (SPD).

Covered Employers

An employer is subject to this annual notice requirement if its group health plan covers participants who reside in a state that provides a premium assistance subsidy, regardless of the employer's location.

The DOL's model notice, which employers may use for this disclosure, is updated periodically to reflect changes in the states that offer premium assistance subsidies. The DOL's model Employer CHIP Notice includes information current as of July 31, 2025**.** Employers could also choose to prepare their own notices, or modify the model notice. Employers should be sure to include at least the minimum relevant state contact information for any employee residing in a state with premium assistance.

State Compliance Update

Nothing to report this month…

Compliance Calendar

August
8/1 – Vets-4212 Filing Open (federal contractors)

September
9/30 – Summary Annual Report (SAR) Deadline for Calendar Year Plans
9/30 – Vets-4212 Filing deadline (federal contractors)

October
10/1 – QSEHRA Notice Deadline (Calendar Year Plans Only)
10/15 – Medicare Part D Creditable/Noncreditable Coverage Notice
10/31 – Form 941 Filing Deadline for Q3