Compliance Alert

Senate Scales Back Benefit Reforms, Preserves Key Incentives

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Senate Takes Red Pen to "One, Big, Beautiful Bill" – Will Benefits Be Modernized?

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On June 16, 2025, the Senate Finance Committee unveiled its version of the highly consequential bill aimed at extending the 2017 tax cuts. As expected, the Senate made major revisions to the House-passed bill, but surprisingly, most of the employee benefits enhancements were cut, despite broad bipartisan support.

It is important to note that this is just the first draft from the Senate. This may go through deliberations where some provisions from the House-passed bill are reconsidered.

Go Deeper:

Only two benefit-related provisions survived from the House-passed version, and one new one was added:

What's staying:

- Expanded tax credits for:
  - Paid family and medical leave (PFML)
  - Adoption assistance
  - Employer-provided child care
- Education assistance improvements:
  - The $5,250 annual limit would be indexed for inflation
  - Student loan repayment would be permanently allowed under education assistance plans

What's new:

- Dependent Daycare FSA increase:
  - The Dependent Care Assistance Program (DCAP) annual cap would rise from $5,000 ($2,500 if married filing separately) to $7,500 starting in 2026 ($3,750 if married filing separately)
  - No indexing for inflation

WHAT'S NEW

Senate Trims Benefit Expansions

Most House-proposed updates—including ICHRA and HSA changes—were cut.

DCAP Increase Added

Dependent care FSA cap raised to $7,500 starting 2026.

Education & PFML Preserved

Student loan repayment stays; child care and PFML tax credits remain.

TAKEAWAY

Senate's draft limits benefit updates, but child care, PFML, and education incentives stay in play for now.

What's Out (for now):

The Senate bill removes a long list of employer-friendly benefit changes included in the House version:

- No ICHRA (CHOICE Arrangement) Enhancements
  - No codification or rebranding of ICHRAs
  - No shortening the notice window from 90 days to 60 days
  - No ability to allow pre-tax deductions for Exchange premiums
  - No new tax credit for small employers offering ICHRAs
- All of the proposed HSA/FSA Modernization Updates
  - HSA compatibility with Medicare Part A, spouse FSA, bronze/catastrophic plans, and limited on-site clinic access
  - Making DPC (direct primary care) a §213 medical expense for FSA/HSA and making certain DPC arrangements HSA-compatible
  - Expanded HSA contribution limits
  - Fitness/gym memberships reimbursable from HSAs
  - Ability to roll unused FSA/HRA funds into an HSA (if no QHDHP for 4 years)
  - And more

Potential Impact to Employers:

These changes are still proposals, not law, and there is still uncertainty about how further negotiations will impact the final bill. However, this is a preview of what may (or may not) be coming in 2026 and beyond, whether through this bill or future bills.

Key takeaway:

- The idea of more flexibility in HSAs, ICHRAs, or FSAs is off the table in the Senate version—for now.
- Child care, education assistance, and PFML tax incentives are still being prioritized.

We continue to monitor legislative updates and will keep you apprised on what makes it into the final version. Lawmakers aim to get this to the President's desk by Independence Day, so stay tuned for what is yet to come!

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