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Planning for 2025 and beyond: Navigating rewards in shifting times

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Introduction

The ability to attract and retain top talent is critical to an employer's success, and tax-effective compensation strategies and offerings help enhance the returns employers may obtain on their reward investment. Several potential tax changes are on the horizon and may impact the mix of compensatory offerings for an employer's workforce, including the imminent scheduled expiration of many provisions of the Tax Cuts and Jobs Act of 2017 ("TCJA", P.L. 115-97) as well as President Donald Trump's tax policy preferences, as revealed in comments during the campaign.

The items that follow contemplate the path that a Trump administration may take in key tax areas for employers. This article provides a perspective on the strategic considerations that employers may begin to evaluate now so that they can model potential outcomes and plan to take swift action to keep rewards offerings competitive if these areas develop into fully-framed legislation that is ultimately approved by Congress.

Corporate income tax rates

The TCJA's corporate tax rate reduction to 21% was a permanent change under the TCJA. However, during his presidential campaign, President Trump suggested potential changes that could impact the value of deferred compensation arrangements offered by your organization.

Potential change	What you can do now
Potential reduction to the corporate income tax rate (reduction to as low as 15% for companies that manufacture their products in the United States).	Consider whether the value of corporate tax deductions associated with nonqualified deferred compensation arrangements may be preserved through the acceleration of payments associated with such arrangements (where permissible under IRC sec. 409A) from 2026 to 2025. • Evaluate fixing bonus pools through corporate action in 2025 (a potentially higher tax rate year). • Model whether additional contributions to qualified defined benefit plans or voluntary employee benefit associations (VEBAs) for 2025 (potentially a higher tax rate year) may be beneficial.

Tip and overtime taxation

On the campaign trail, President Trump raised the possibility that service industry workers should be able to keep their tip income by excluding it from taxation. He also discussed the possibility of ending taxation for "overtime" work. Although details have not been released, employers may wish to start evaluating the impacts on your businesses now.

Potential change	What you can do now
Change to Internal Revenue Code ("IRC") to end income taxation of tips and/or overtime hours.	• Consult with your vendors and review your payroll processes to get ahead of any changes. • Plan for changes to your compensation strategies to reflect newly beneficial income tax status of tips or overtime, including any potential impacts to related employer tax deductions. • Evaluate any potential impacts for a difference in state tax positions, especially with respect to state nonconformity.
Change to IRC to end employment taxation of tips and/or overtime hours.	• Model whether changes to your compensation strategies may be needed to reflect the end of employee- and employer-side FICA remittance obligations (as well as the 0.9% additional Medicare tax on employees, if applicable) and any potential impacts to related employer tax deductions.

Paid family leave

The TCJA includes an employer credit for paid family and medical leave, which allows an “eligible employer” to take a tax credit of between 12.5% to 25% of wages paid to qualifying employees for up to 12 weeks of leave where the rate of pay provided was at least 50% of normal wages.

The provision is set to expire after 2025. The provision, as drafted, has proven challenging for employers to utilize. As President Trump has generally supported making expiring TCJA provisions permanent, you may want to factor paid family leave into discussions of future rewards offerings.

Potential change	What you can do now
Potential extension of IRC sec. 45S.	• Reconsider whether existing tax incentives apply to present paid family and medical leave policies. • Model what levels of incentives would motivate your organization to add paid family leave to your benefits portfolio.

Educational assistance

Recent changes have expanded opportunities for employees to receive an employer benefit with respect to paying down student loans on a tax-preferred basis. The 2022 SECURE 2.0 Act permits employers to match “qualified student loan payments” in defined contribution programs as if the loan payments were elective deferrals. The 2020 CARES Act (as extended by the Consolidated Appropriations Act) expanded IRC sec. 127 educational assistance programs to allow employers to provide up to $5,250 per year to pay for student loans tax free, though without additional legislative action this will expire at the end of 2025. If extended, the provision may be even more impactful: the IRS issued PLR 202434006, which leveraged the expanded IRC sec. 127 language to permit an arrangement that would allow an employee to choose to receive loan assistance in lieu of additional nonelective contributions to a defined contribution retirement plan or certain health care arrangements.

Potential change	What you can do now
Expiration of expanded IRC sec. 127 education assistance plan provisions to permit employer payment of college loans at the end of 2025.	• Where rewards programs have relied upon expanded IRC sec. 127, consider adding loan matching under your 401(k) plan or other defined contribution plan beginning with 2026.
Potential extension of expanded IRC sec. 127 education assistance plan provisions to permit employer payment of college loans.	• Consider expanded use of employer loan assistance and model the possible impact this could have with respect to other defined contribution programs, including employer 401(k) contributions.

Moving expense and SALT cap repeal

Expiration of certain TCJA policies may improve incentives to help move talent to strategic locations.

Prior to TCJA, employees could deduct and exclude certain employment-related moving expenses from adjusted gross income, and employers could exclude so-called qualified moving expense reimbursements. However, for tax years beginning after 2017, an individual may no longer deduct moving expenses (with certain exceptions for members of the armed forces) and employers could no longer exclude moving expenses from income. Expiration of the TCJA disallowance would permit the reinstatement of the deduction and employers may again be able to offer reimbursement for moving expenses beyond certain distances, exempted from income and employment tax. As in-office time becomes more significant to employer culture, the ability to move employees closer in a manner that benefits the individual may be of great value to both employees and employers.

Additionally, the TCJA capped the itemized individual income tax deduction for state and local taxes at $10,000 per year. This made certain high-tax states less desirable locations for relocation for many taxpayers. President Trump spoke of potentially ending or reducing this "SALT" cap on the campaign trail. Should this cap be relaxed or fully lapse, relocation to high-tax states may be more palatable to a greater number of employees than it has been in recent years.

Potential change	What you can do now
Expiration of the moving expense deduction limitation and repeal of the SALT cap.	• Meet with business leaders to determine your company philosophy and position on personal move requests and model any company-provided relocation support.

AMT impact on ISOs

TCJA increased the alternative minimum tax (AMT) exemption amounts and phaseouts. Without legislative action, exemption amounts are set to revert to pre-TCJA levels after 2025 and will be adjusted for inflation.

The favorable tax treatment that a "qualified disposition" of incentive stock option (ISO) receives at exercise is exempt/disregarded for purposes of AMT. The difference between the ISO's exercise price and the fair market value of the stock at exercise is considered part of AMT income for the year in which the option is exercised.

For the last few years, more employees have qualified for exemptions to AMT. But with reduced exemption amounts and phaseouts possible after 2025, more employees may have AMT implications if exercising or disposing ISOs.

Potential change	What you can do now
The AMT exemption and exemption phaseout will revert to pre-TCJA levels and then be adjusted for inflation.	• Plan for whether these changes may impact employee behavior and sense of value in exercising ISOs as more employees may become subject to AMT or whether plans permit the early exercise of ISOs to limit AMT.

Eating facility changes

The TCJA limited the deduction for expenses for food and beverages used in providing meals through a cafeteria to 50% through 2025, though it permitted full deduction for labor and overhead associated with such cafeteria. Both deductions sunset after 2025 unless Congress extends them.

Potential change	What you can do now
Elimination of both deductions for food and beverages used in producing employer-provided meals from eating facilities, and related labor and overhead.	• Continue to evaluate the overall expense of on-site eating facility as compared to its value to your operations.

Conclusion

The items above are not an exclusive list of the rewards program changes that may be on the table in coming months. Other matters, like the upcoming expansion of IRC sec. 162(m)'s covered employee population to include additional employees enumerated by the American Rescue Plan Act of 2021 (the so-called "ARPA 5") and new regulations that address this group should also be considered.

However, we recommend that employers start reviewing rewards programs in light of the items above to determine which items may need to be discussed anew with business leaders. Then, we recommend meeting with business leadership and advisors on impacted employee programs, determining company philosophy in light of potential legislative changes.

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