National Employers Association
NEA May 2025 Federal Policy Report

I. Work on the Hill

In May 2025, Congress made significant progress on long-term federal budget planning while launching the annual appropriations process for Fiscal Year 2026. The most notable development came on May 22nd, when the House narrowly passed H.R. 1, the "One Big Beautiful Bill Act," a comprehensive 10-year budget reconciliation package that proposes a combination of extended tax relief, targeted spending reductions, and policy reforms across a wide range of federal programs. The bill aims to build on the 2017 tax law by permanently extending individual tax rate reductions and increasing the estate tax exemption. It also introduces new tax benefits, including a deduction for seniors and the elimination of federal taxes on tips and overtime pay.

Several provisions in the bill are designed to support small businesses. The Section 199A deduction for pass-through entities would be made permanent and increased to 23 percent. A new two-year tax credit would be established for small employers (fewer than 50 employees) that offer health coverage through CHOICE arrangements for the first time, with credits of $100 per employee per month in the first year and $50 per employee per month in the second. The employer-provided childcare credit would also be expanded, increasing the maximum credit from $150,000 to $500,000 and raising the reimbursement rate from 25 to 40 percent. Small businesses would be eligible for an even larger maximum credit of $600,000, covering up to 50 percent of qualifying expenses. Additionally, the bill would make the Paid Family and Medical Leave tax credit permanent, expand eligibility to include contributions to family leave insurance premiums, and lower the employee tenure threshold from one year to six months, making it more accessible to small employers.

H.R. 1 also includes several provisions related to transportation and infrastructure. The legislation provides funding for the modernization of U.S. Coast Guard operations, including the acquisition of vessels and equipment to enhance maritime border security and drug interdiction capabilities. It also supports enhancements to the air traffic control system, including technology upgrades and workforce expansion to promote safer and more efficient management of the national airspace.

The bill outlines significant fiscal policy shifts, including targeted reductions to federal healthcare spending. It proposes phasing down expanded ACA premium subsidies and modifying Medicaid eligibility and funding formulas. The Congressional Budget Office estimates these changes would reduce ACA-related expenditures by $301 billion and Medicaid spending by $806 billion over the next decade. These adjustments are intended to promote long-term cost savings and program sustainability. In addition, the bill includes $70 billion for border security improvements, including physical infrastructure, surveillance technology, and personnel increases. Other provisions would modify the scope of federally covered medical procedures under Medicaid and the ACA, with changes to definitions of essential health benefits.

While the bill includes a variety of cost-saving measures, the CBO projects that it would result in a net increase to the federal deficit of approximately $2.4 trillion over the next ten years, primarily due to the tax provisions estimates suggest this figure could grow to $5 trillion if temporary tax cuts are extended further. The legislation passed the House by a narrow margin of 215 to 214, reflecting a range of policy perspectives within the majority party, particularly around tax priorities and deficit management.

Meanwhile, both chambers of Congress officially began the FY 2026 appropriations process in May. Committees held dozens of budget hearings to examine funding needs across federal agencies and set priorities for the upcoming fiscal year. These discussions will continue through the summer as lawmakers consider programmatic funding levels in areas such as education, transportation, healthcare, workforce development, and defense. As the Senate prepares to consider its version of the budget, negotiations are expected to continue over the coming months. The outcome will help shape federal investments in public health, infrastructure, small business growth, and intergovernmental partnerships for years to come.

At the same time, it rescinds various education, transit, and recovery funds, prompting concern from local officials about potential service cuts or tax increases. However, the bill preserves tax-exempt municipal bonds and supports continued issuance of private activity bonds, tools essential to infrastructure financing and public-private partnerships (P3s). As negotiations continue, Lobbyit is closely monitoring how these budget proposals and any eventual compromise may affect employer tax obligations, healthcare costs, education affordability, and the stability of the public sector programs that support workforce participation and small business growth.

<u>May Highlights</u>

Max Karlin, Health Legislative Assistant – Office of Rep. Brett Guthrie (R-KY-02)

On May 27th, 2025, Lobbyit met with Max Karlin, Health Legislative Assistant to House Energy & Commerce Health Subcommittee Chair Brett Guthrie, on behalf of the National Employers Association (NEA). The conversation focused on (H.R. 379), the *Healthcare Freedom and Choice Act*, sponsored by Rep. Buddy Carter (R-GA).

The Chairman's office expressed appreciation for NEA's interest in the bill and encouraged continued engagement. Staff provided helpful follow-up guidance, including directing clarifying questions to CMS and HHS regarding the bill's implementation and potential administrative impact. They also committed to keeping us informed about any upcoming hearings, briefings, or committee activity related to (H.R. 379) as discussions advance. Lobbyit is continuing to meet with Republican members of the Senate HELP Committee to identify a potential Senate sponsor and advance the legislation in the upper chamber. Additionally, engaging with members of the Republican Study Committee to help grow House co-sponsorship and build broader support for the bill.

II. Policy Updates

Evolving Labor Rules: Independent Contractors, Union Reform, and EEOC Oversight

In May 2025, the federal government implemented several updates relevant to employers across sectors. The Department of Labor withdrew the previous administration's rule on worker classification. It directed the Wage & Hour Division to return to a 2008 interpretation of the "economic reality" test under the Fair Labor Standards Act. This approach evaluates multiple factors to determine whether an individual is an employee or an independent contractor, offering greater flexibility and alignment with longstanding case law. A federal court also issued an injunction blocking earlier EEOC guidance on Title VII protections related to gender identity; the Commission is expected to issue updated materials in line with the ruling, while maintaining enforcement authority under existing law.

Additionally, Executive Order 14281 directed federal agencies to discontinue the use of "disparate impact" analysis in civil rights enforcement, shifting compliance evaluations to focus on intentional practices rather than outcome-based metrics. These developments will be examined in a June 5th hearing before the House Education and the Workforce Committee, where the Labor Secretary is scheduled to testify on the Department's rulemaking agenda, budget priorities, and overall enforcement direction. Collectively, these actions reflect a broader federal focus on regulatory consistency, workforce classification clarity, and employer-oriented compliance standards.

SBA Lending Policy Revisions Affecting Business Eligibility and Loan Terms
In May 2025, the Small Business Administration implemented several updates to its 7(a) loan program aimed at strengthening underwriting practices and ensuring alignment with new federal directives. These changes include the reinstatement of traditional multi-factor underwriting standards, replacing the "Do What You Do" model previously in use. The SBA also updated its eligibility requirements to clarify that loan applicants must now be 100% owned by U.S. citizens, U.S. nationals, or lawful permanent residents. Upfront guaranty fees for SBA loans have been reintroduced, with amounts varying based on loan size. Additionally, the agency finalized and prepared to implement Standard Operating Procedure (SOP) 50-10-8, effective June 1st, 2025, which introduces further refinements to eligibility criteria and reinstates the SBA Franchise Directory. These revisions aim to enhance lender and borrower accountability, ensuring that SBA-backed capital is directed toward qualifying domestic enterprises.

Federal Health Policy Developments
In May 2025, the administration advanced several healthcare policy initiatives with potential implications for employer-sponsored benefits and insurance markets. President Trump signed an executive order directing the Department of Health and Human Services (HHS) to pursue a "most-favored-nation" pricing model, which would ensure that the U.S. pays no more for select Medicare-covered drugs than peer countries. HHS and CMS began steps toward implementation, initiating discussions with manufacturers to align prices. While the immediate impact is limited to Medicare, future outcomes could influence broader pricing trends relevant to employer plans. Separately, the House passed a broad budget reconciliation package that includes proposals to introduce work requirements for certain Medicaid enrollees, gradually wind down enhanced ACA marketplace subsidies, and adjust related funding provisions. The legislation also proposes expanded Health Savings Account (HSA) eligibility, potential updates to Medicare premiums, and the repeal of specific energy-related tax incentives. In line with the administration's FY 2026 budget framework, the proposal outlines reduced funding levels for some public health agencies, including the CDC.

These changes would shift additional focus toward localized or employer-supported preventive health and wellness strategies. Provisions affecting programs such as SNAP and the Children's Health Insurance Program (CHIP) are also under discussion, with ongoing deliberations centered on aligning support programs with broader workforce participation goals. No new legislative action occurred in May regarding Short-Term Limited Duration Insurance (STLDI). Still, the administration's existing rule, which allows coverage for up to three years, remains in effect, continuing to offer flexible insurance options for individuals outside traditional group or marketplace plans.

HUD Rulemaking and Immigration Policy

At the Department of Housing and Urban Development, the comment period closed on May 2nd for a proposed update to the "Affirmatively Furthering Fair Housing" (AFFH) rule. The revised rule aims to streamline planning requirements and offer greater flexibility to states and localities, shifting away from more detailed federal reporting structures used in the past. Observers in the housing and education sectors noted that such adjustments could influence long-term community development and local school enrollment patterns. Separately, developments in immigration policy continue to intersect with workforce and education systems. A recently passed House bill includes over $150 billion in proposed funding for border security and interior operations, including staffing increases, expanded enforcement infrastructure, and application fees related to asylum and family reunification processes. While the Senate has not yet acted on the legislation, the measure reflects a continued policy focus on operational capacity and system integrity. No action was taken on DACA during May, and discussions regarding broader immigration reform continue, with implications for educators, employers, and communities that include mixed-status families or newly arrived individuals.

Education Policy Shifts and Workforce Implications

The Office of Federal Student Aid announced it would resume collections on defaulted student loans that had been paused. Beginning May 5th, FSA restarted the Treasury Offset Program (intercepting tax refunds for defaulted borrowers) and planned to reinstate wage garnishment by summer. This marked a shift away from the pandemic-era leniency, as the Department moved to "rehabilitate the student loan portfolio" and restore pre-COVID enforcement tools. Education officials emphasized they are also cracking down on improper payments, revealing an audit that found nearly $90 million disbursed to ineligible student aid recipients (including payments to thousands of deceased individuals) due to lax oversight during the prior administration. By late May, the Department had resumed automated post-screening of FAFSA records (to update students' aid eligibility) and reactivated identity-verification flags to prevent fraud.

A federal judge issued a preliminary injunction on May 22nd halting further layoffs at the Department of Education. The ruling came in response to a multistate lawsuit challenging the administration's plan to wind down the agency. For now, the injunction preserves ongoing operations tied to student aid programs, oversight of postsecondary institutions, and grant administration. The continued functionality of the Department is crucial for maintaining predictable support for employer-focused education initiatives and training pipelines.

Cuts to K–12 and higher education funding, reductions in student aid, and changes to federal training programs can limit access to education and narrow the pipeline of job-ready workers, particularly in industries that rely on skilled labor. Additionally, developments in early childhood education and student loan policy affect employee retention, productivity, and benefit planning for employers, especially those supporting working families, as the federal government reorients its approach to education, from funding structures to civil rights enforcement and grant priorities.

Appropriations and Public Program Changes

Recent federal budget and appropriations developments introduced several proposals that could shape future workforce and employer planning. The administration's FY 2026 "skinny budget" outlined a framework that prioritizes spending restraint by proposing reductions to non-defense discretionary programs, including a 44 percent decrease in funding for the Department of Housing and Urban Development, as well as adjustments to the Departments of Education and Health and Human Services. These proposals would affect programs such as Pell Grants, Title I aid, public housing improvements, and transit access, with potential implications for education access, job readiness, and employee mobility. The House Appropriations Committee advanced interim 302(b) allocations consistent with these toplines, setting non-defense discretionary funding at $710.7 billion.

The House-passed reconciliation package also included a national tax credit scholarship program modeled on the Educational Choice for Children Act, which could expand private K–12 education options and influence future workforce development pathways. The legislation additionally raised the State and Local Tax (SALT) deduction cap through 2029, offering potential tax relief for employees in high-cost states, while phasing out certain clean energy tax credits previously used to support facility improvements. Infrastructure programs continued to advance, with all 50 states actively implementing broadband expansion projects under the BEAD program, and the FCC's E-Rate program remaining in operation. However, the Affordable Connectivity Program, which helps subsidize broadband for low-income households, is expected to reach the end of its funding cycle later this year unless Congress renews it. These budget and policy developments reflect a broader federal effort to realign priorities, streamline programs, and encourage state-level flexibility, with potential effects on workforce access, benefit structures, and employer-supported services. Lobbyit continues to monitor how these funding decisions, tax provisions, and infrastructure investments shape the policy environment for employers managing workforce demands, benefit structures, and regional economic development.

III. Legislation

Senate Passes 'No Tax on Tips' Bill

The U.S. Senate unanimously passed the "No Tax on Tips Act," which aims to exempt up to $25,000 in tipped income from federal taxation for workers earning under $160,000 annually. While proponents argue it benefits service industry workers, critics contend it may primarily advantage employers by justifying lower base wages and potentially expanding the subminimum wage system.

Proposed Legislation to Disband OSHA

Representative Andy Biggs reintroduced the "Nullify Occupational Safety and Health Administration Act," aiming to abolish OSHA and transfer workplace safety oversight to states and private employers. It reflects ongoing debates over federal versus state control of workplace safety regulations.

In May, a federal judge in Louisiana issued a decision invalidating a portion of the EEOC's regulations implementing the *Pregnant Workers Fairness Act* (PWFA). The ruling focused on the provision that classified abortion as a "related medical condition" of pregnancy, warranting reasonable accommodation under the law. The court held that Congress had not explicitly included abortion in the statute's scope, citing its significant social and political implications. As a result, the specific EEOC rule requiring accommodations for abortion-related needs was vacated nationwide. Other aspects of the PWFA remain in effect, and the Department of Justice is currently weighing whether to appeal the decision. Employers should remain aware of ongoing guidance developments as the legal landscape continues to evolve.

Separately, the House Education and Workforce Committee launched a review of union governance practices. On May 27th, Chair Tim Walberg (R-MI) and Subcommittee Chair Rick Allen (R-GA) issued a public request for information (RFI) on potential updates to the *Labor-Management Reporting and Disclosure Act* (LMRDA), which governs union financial disclosures, elections, and internal processes. The RFI invites stakeholder feedback on proposals designed to enhance transparency and member engagement. While discussions are still in the early stages, any resulting legislation could have implications for union operations, including those representing educators and public sector employees.

While no new federal funding for paid family leave or childcare was enacted in May, several proposals remain under consideration. Senator Patty Murray (D-WA) and Representative Bobby Scott (D-VA-03) reintroduced the *Child Care for Working Families Act*, which would lower childcare costs for families, expand access to preschool, and raise wages for early educators. Meanwhile, the *FAMILY Act,* a proposal to establish a national paid family and medical leave insurance program, was reintroduced by Senator Kirsten Gillibrand (D-NY) and Representative Rosa DeLauro (D-CT). In a separate effort, Senator Deb Fischer (R-NE) introduced (S. 400), the *Paid Family and Medical Leave Tax Credit Extension and Enhancement Act*, which would extend and enhance the existing employer tax credit to encourage voluntary paid leave offerings in the private sector. Each of these proposals represents a distinct approach to improving the nation's caregiving infrastructure.

At the state level, Michigan and Minnesota enacted new state-run family leave programs in May, joining a growing number of jurisdictions with standalone systems. For multistate employers, this continued state-level activity highlights the importance of tracking compliance obligations, coordinating benefits across geographies, and staying engaged in emerging federal policy efforts.

IV. Monthly Wrap Up

These developments represent a wide range of federal policy shifts with direct implications for NEA's core priorities, including insurance flexibility, employer-sponsored benefits, SBA lending access, and workforce participation. From drug pricing reforms and Medicaid proposals to regulatory changes affecting overtime rules and small business eligibility, the evolving policy environment warrants continued attention. Lobbyit will remain engaged with congressional offices, including members of the Senate HELP Committee and the Republican Study Committee, to support the advancement of STLDI legislation and expand support in both chambers. At the same time, Lobbyit is closely monitoring reconciliation negotiations, regulatory rulemaking, and agency implementation efforts to identify new opportunities or risks as they arise. NEA's sustained engagement in these areas will be essential to shaping favorable outcomes and maintaining a strong position as legislative and administrative processes continue to unfold.