

FISCAL BRIEF



THE ONE BIG BEAUTIFUL BILL ACT OF 2025

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July 21, 2025

FAST FACTS

- On July 4, 2025, the One Big Beautiful Bill Act (P.L. 119-21) was enacted into law.
- The act includes a number of federal tax changes that will affect state tax collections.
- The act makes a number of federal program reductions, particularly to Medicaid and the Supplemental Nutrition Assistance Program (SNAP).
- Most of the federal program reductions are phased in and will not have an immediate significant impact on the state.

INTRODUCTION

The One Big Beautiful Bill Act of 2025 (OBBBA) includes a number of federal tax and federal programming changes, particularly to Medicaid and the Supplemental Nutrition Assistance Program (SNAP), that will have a direct, significant impact to the state. This brief does not attempt to summarize all of the changes that will affect the state, but highlights what appear to be the most significant provisions. Additionally, there are a number of provisions in OBBBA that depend on the issuance of rules and guidelines by federal agencies, so any descriptions or figures noted below should be considered preliminary and not final.

TAX POLICY

OBBBA includes a number of significant changes to federal tax policy for both individuals and businesses. While many of the provisions will not have a downstream effect on state revenues, there are certain business tax provisions we are monitoring for potential revenue effects. As of this writing, it is assumed that most of the individual income tax changes will not result in any significant changes to state revenues. However, many of the business tax changes have the potential to reduce business tax revenue, potentially by a significant amount, under current law. States could elect to change state law to “decouple” from federal tax provisions and limit the revenue impact. The following highlights a few of the larger provisions we are reviewing for state revenue impacts.

RESEARCH AND EXPERIMENTAL EXPENDITURES EXPENSING

Since 2022, domestic research costs were required to be amortized over five years. OBBBA includes a provision allowing firms to immediately deduct domestic research and experimental expenditures. Additionally, small businesses (those with average annual gross receipts of \$31.0 million or less for 2025) may retroactively claim the deduction back to 2022, and OBBBA allows all business that incurred domestic research and experimental expenditures between 2022 and 2024 to accelerate the remaining deductions over one to two years.

The Joint Committee on Taxation (JCT) estimates that this provision will reduce federal tax revenues by \$53.8 billion in FY 2024-25. The revenue impact diminishes quickly as deductions are pulled forward with the federal tax revenue reduction estimated at \$7.5 billion by FY 2028-29.

It is anticipated that this provision will result in reduced corporate income tax revenues in Michigan because the deduction will affect a firm's Michigan tax base (see **Table 1**).

QUALIFIED PRODUCTION PROPERTY

The OBBBA includes a provision that would allow firms to expense qualified production property (mainly used in the manufacturing process) if the construction began after January 19, 2025 and the property is placed into service after the date of enactment and before 2031. Under prior law, the property would have depreciated over 39.5 years.

The JCT anticipates that this provision to reduce federal revenues by approximately \$2.2 billion in FY 2024-25 before jumping to \$30.3 billion in FY 2025-26. Due to the previous lengthy depreciation schedule, the JCT anticipates the federal revenue loss to remain elevated (around \$30.0 billion) through FY 2028-29 before declining to \$18.3 billion in FY 2029-30 and \$4.2 billion in FY 2030-31.

It is anticipated that this provision will result in reduced corporate income tax revenues in Michigan because the deduction will affect a firm's Michigan tax base (see **Table 1**).

BUSINESS INTEREST LIMITATIONS

Prior to OBBBA, the deduction for business interest expense was generally limited to 30% of the firm's adjusted taxable income, which generally meant earnings before interest and taxes. The OBBBA changes the definition of adjusted taxable income to be calculated permanently without regard to the allowance for depreciation, amortization, or depletion, which effectively means earnings before interest, taxes, depreciation, and amortization.

The JCT estimates that this provision will reduce federal tax revenues by approximately \$8.3 billion in FY 2024-25 and \$6.5 billion in FY 2025-26. In subsequent years, the provision is expected to reduce federal revenues by between approximately \$5.0 billion and \$6.0 billion annually.

It is anticipated that this provision will result in reduced corporate income tax revenues in Michigan because the deduction will affect a firm's Michigan tax base (see **Table 1**).

SECTION 179 EXPENSING OF CERTAIN DEPRECIABLE BUSINESS ASSETS

Section 179 expensing was previously available up to \$1.25 million with a phaseout starting at \$3.1 million. OBBBA increases the Section 179 deduction limit to \$2.5 million with a new phaseout of \$4.0 million for assets purchased and placed into service in FY 2024-25. The bill provides annual inflation adjustments to these new limits after FY 2024-25.

The JCT estimates that this provision will reduce federal tax revenues by \$2.3 billion in FY 2024-25, which will increase to \$4.3 billion in FY 2025-26 before declining to \$2.1 billion by FY 2029-30.

It is anticipated that this provision will result in reduced corporate income tax revenues in Michigan because the deduction will affect a firm's Michigan tax base (see **Table 1**).

BONUS DEPRECIATION

The OBBBA will restore 100% bonus depreciation for qualifying property that was initially included in the Tax Cuts and Jobs Act (TCJA). Under the TCJA, the bonus depreciation allowances were to be phased out to 60% in 2024, 40% in 2025, 20% in 2026, and 0% in 2027 and beyond. The restoration of the 100% bonus depreciation provision is permanent in the OBBBA and will have no scheduled phaseout. Essentially, a firm meeting the qualifications under

the Internal Revenue Code may, in the year the property is placed into service, deduct 100% of the acquisition costs of the property after January 19, 2025.

The JCT estimates that this provision will reduce federal tax revenues by approximately \$33.5 billion in FY 2024-25 and \$54.2 billion in FY 2025-26 before declining to \$13.3 billion by FY 2029-30.

Under Michigan law, any bonus depreciation claimed on a taxpayer's federal return is not allowed for corporate income tax (CIT) purposes. Therefore, it is assumed that this provision will not result in a revenue loss for Michigan under the CIT. However, it is assumed that this provision will result in a modest revenue reduction due to flow-through entities under the individual income tax (see **Table 1**).

BUSINESS TAX PROVISION REVENUE LOSS ESTIMATES FOR MICHIGAN

Taken together, and accounting for uncertainty around the applicability and effect of the federal business tax provisions, HFA currently estimates that the state revenue loss from the various provisions noted above will reduce revenues by the following amounts:

Table 1: Estimated Michigan Revenue Loss FY 2025-26 through FY 2027-28
(millions of dollars)

	FY 2025-26	FY 2026-27	FY 2027-28
Expensing Domestic Research and Experimental Expenditures	-\$449	-\$226	-\$119
Qualified Production Property	-85	-258	-236
Limitation on Business Interest	-72	-51	-41
Section 179 Expensing (certain depreciable business assets)	-26	-32	-23
Bonus Depreciation	-45	-45	-25
TOTAL	-\$677	-\$613	-\$444

The annual revenue loss is expected to decline throughout the JCT forecast window, which would result in a declining revenue loss effect in Michigan as well. The longer-term trend is shown in **Table 2**.

Table 2: Long-Term Trend - Total Michigan Revenue Loss
(millions of dollars)

Fiscal Year	Total Revenue Effect
FY 2028-29	-\$366
FY 2029-30	-261
FY 2030-31	-157
FY 2031-32	-79
FY 2032-33	-52
FY 2033-34	-46

INDIVIDUAL INCOME TAX PROVISIONS

The OBBBA includes a wide array of tax provisions that would affect individual income taxes. However, the various changes are not expected to lead to a significant revenue impact for Michigan. Many of the provisions having the most significant impact on federal revenues would not factor into adjusted gross income (AGI), which is the base from which Michigan calculates income state income tax liability. Stated another way, the changes in the OBBBA are generally below the AGI line.

The following is a non-exhaustive list of the major individual income tax provisions extended, modified, or made permanent by the OBBBA:

- Makes current individual income tax rates permanent.
- Provides permanent increase to standard deduction (single: \$15,750; head of household: \$23,625; and married filing jointly: \$31,500) and indexes to inflation.
- Increases the state and local tax (SALT) cap from the current \$10,000 to \$40,000 through December 31, 2029, and adjusts for inflation; SALT deduction is reduced for taxpayers with modified adjusted gross income in excess of \$500,000 but cap will never be reduced below \$10,000.
- Increases estate tax exemption to \$15.0 million and makes permanent.
- Makes permanent the current mortgage interest deduction limitation to the interest on the first \$375,000 (\$750,000 if filing jointly) of acquisition indebtedness on primary/secondary residence.
- Makes permanent casualty loss deduction restriction to losses only if they result from a state or federally declared disaster.
- Makes permanent the TCJA provision disallowing miscellaneous itemized deductions other than educator expenses.

Some of the major [new individual income tax provisions](#) are as follows:

- Provides a temporary deduction up to \$25,000 for cash tips received by an individual who works in an industry that customarily receives tips before December 31, 2024; deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers); effective for tax years 2025 through 2028.
- Provides a temporary deduction up to \$12,500 (\$25,000 for joint filers) for qualified overtime compensation that exceeds the taxpayers regular rate of pay – for example, the half portion of time-and-a-half compensation; deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers); effective for tax years 2025 through 2028.
- Provides a temporary deduction of up to \$10,000 for interest paid on a loan used to purchase a qualified vehicle purchased for personal use and that meets other eligibility criteria; deduction phases out for taxpayers with modified adjusted gross income over \$100,000 (\$200,000 for joint filers); effective for tax years 2025 through 2028.
- Provides a temporary additional \$6,000 (\$12,000 for joint filers where both filers qualify) deduction for individuals age 65 and older; deduction is in addition to the current additional standard deduction for seniors; deduction phases out for taxpayers with modified adjusted gross income over \$75,000 (\$150,000 for joint filers); effective for tax years 2025 through 2028.

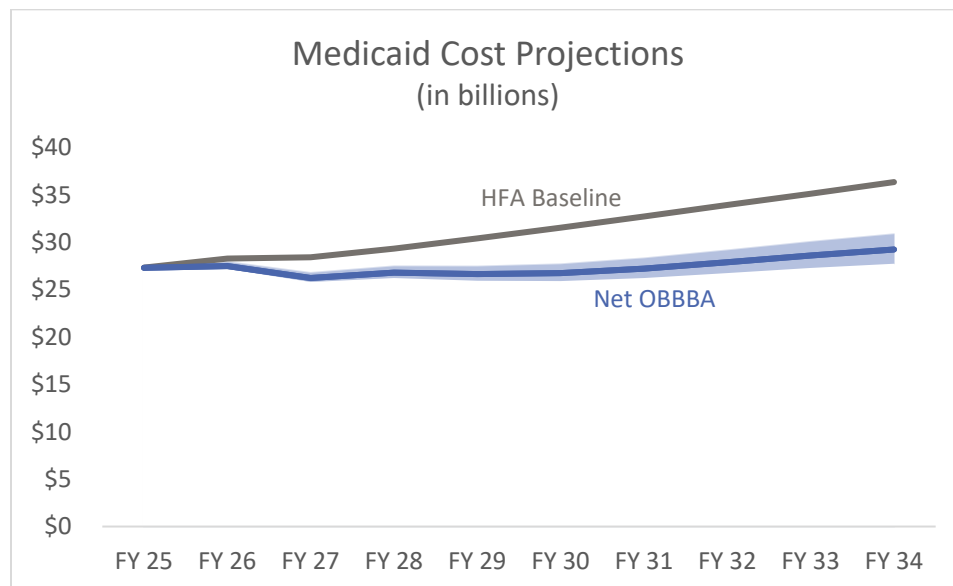
- Provides new charitable contribution rules for all taxpayers regardless of whether the taxpayer itemizes or takes the standard deduction.
 - Non-itemizers (taxpayers using standard deduction) – taxpayers may claim a charitable deduction up to \$1,000 (\$2,000 for joint filers) beginning in tax year 2026.
 - Itemizers – taxpayers will be subject to a new floor on charitable contributions equal to 0.5% of adjusted gross income, which means that only the portion of charitable contributions exceeding that amount is deductible.

MEDICAID

OBBBA includes a number of significant changes to Medicaid, a joint federal-state health care program for qualifying low-income individuals. As noted above, this brief does not summarize all the changes to Medicaid but highlights the most significant provisions. It should also be noted that the specific state impacts of OBBBA will not be known until the Centers for Medicare and Medicaid Services (CMS) provides their implementation guidelines and rules. Any descriptions or figures noted below should be considered preliminary and not final estimates.

In total, and using information from [CBO](#), [KFF](#), [NCSL](#), and FFIS, Medicaid costs for the state are projected to decline by \$7.1 billion Gross by FY 2033-34 (see **Figure 1**). Most of the fiscal years are projected to have a slower growth, except for a year-over-year decline in FY 2026-27 and FY 2028-29 as changes to provider taxes, community engagement requirements, and other provisions are phased in.

Figure 1: Gross Medicaid Cost Projections



PROVIDER TAXES AND DIRECTED PAYMENTS

OBBBA makes a number of changes to provider taxes and state directed payments. Taken together, these changes are estimated to reduce annual Medicaid payments by approximately \$3.1 billion Gross by FY 2033-34.

There are four state health care provider taxes: the hospital quality assurance assessment program (QAAP) (\$2.1 billion state restricted), the long-term care QAAP (\$350.0 million state restricted), the ambulance QAAP (\$3.6 million state restricted), and the insurance provider assessment (IPA) (\$630.0 million state restricted). These state restricted revenues are used to increase Medicaid provider rates for the applicable health care provider class through

supplemental Medicaid payments and offset (by approximately \$1.0 billion) state general fund/general purpose (GF/GP) that would otherwise be needed as state match for the base Medicaid program.

There are four primary state directed payments (found [here](#)): Hospital Rate Adjustment (HRA) (\$5.1 billion Gross) Specialty Network Access Fee (SNAF) (\$583.5 million Gross), direct care wage increase (\$472.5 million Gross), and inpatient psychiatric beds (\$300.0 million Gross). State directed payments are arrangements between the state and its contracted managed care organizations that require managed care organizations to pay providers at a specific or enhanced fee schedule.

Federal Provisions to Provider Taxes

OBBBA prohibits states from establishing new provider taxes (for example, creating a new QAAP on a different provider class) and prohibits existing provider taxes from increasing.

In addition, and with a greater direct impact to the state, beginning in FY 2027-28, the act phases down the 6% provider tax cap by 0.5 percentage point increments annually until the provider tax cap reaches 3.5% in FY 2031-32. OBBBA excludes nursing home provider taxes from this provision, and both the ambulance QAAP and IPA are below 3.5%, so the hospital QAAP should be the only state provider tax affected by this provision.

Uniformity Requirement

OBBBA tightens when CMS can consider when a provider tax that is non-uniform or non-broad based is generally redistributive or not. Specifically, OBBBA prohibits provider taxes if the rates charged within a provider class vary based on the volume of Medicaid taxable units. This provision appears to mirror the proposed CMS rules issued on May 12, 2025 (found [here](#)) that specifically highlights managed care organization taxes like the state's IPA. This OBBBA provision is effective immediately but allows the Secretary of Health and Human Services to determine an applicable transition period of up to three fiscal years.

The two provider taxes in the state that are not uniform are the IPA and the long-term care QAAP. The IPA appears to be in direct conflict with these new federal provisions. The long-term care QAAP does not appear to be in conflict because its non-uniformity is based on the number of licensed beds rather than Medicaid taxable units.

State Directed Payments

OBBBA reduces the federal reimbursement cap for state directed payments through managed care organizations from average commercial rates down to the equivalent Medicare rate or, if there is not an applicable Medicare payment rate, the state's fee-for-service payment rate. Beginning January 1, 2028, this reduction will be phased in by 10 percentage point increments each year.

The HRA and SNAF appear to be in conflict with this federal provision. Both reimburse their respective provider classes (hospitals and university affiliated practitioners) up to average commercial rates. The HRA was recently increased from being indexed to Medicare up to average commercial in FY 2023-24, which increased that supplemental Medicaid payment by \$2.5 billion Gross. Using a similar proportion for SNAF, SNAF could be reduced from \$265.0 million to \$300.0 million Gross.

COMMUNITY ENGAGEMENT REQUIREMENTS

No later than January 1, 2027, Michigan is required to consider federal community engagement requirements as part of Healthy Michigan Plan (HMP) eligibility and redetermination for otherwise eligible applicants. Based on the

aforementioned estimates, these requirements are expected to comprise approximately 25% of the overall funding impact to Michigan, approximately \$1.9 billion Gross by FY 2033-34.

Applicable Individuals

The requirements apply to all HMP applicants and enrollees, unless the state is designated as a high unemployment state and except those that are any of the following:

- Determined “medically frail or otherwise [having] special needs”.
- Hospitalized, or a nonvoluntary resident of a public institution.
- A Native American.
- A veteran with a disability rated as “total”.
- Participating in a substance use disorder treatment program.
- Pregnant or entitled to post-partum medical assistance.
- A parent of a dependent who is less than 14 years of age or is an individual with a disability.

Qualifying Activities

All nonexempt applicants and enrollees must meet, and be verified for, the requirement of engaging in not less than a combined 80 hours per month in one or more of the following activities:

- Paid wage or salary employment, including seasonal employment. The employment must be compensated at no less than federal¹ minimum wage or, for seasonal workers, an average of federal minimum wage over a six-month period.
- Approved community service activities.
- Qualifying work program.
- Educational program (enrolled at least half-time).

Compliance Verification

Notwithstanding any subsequent guidance from CMS, states are provided some autonomy² as to how criteria are evaluated and enforced. Additionally, OBBBA provides for other exemptions, such as cases where the individual was under the age of 19 during the verification period, cases where the individual was temporarily incarcerated during the verification period, and certain short-term hardship events.

ELIGIBILITY REDETERMINATIONS

Beginning January 1, 2027, OBBBA requires the state to redetermine an individual’s eligibility for HMP every six months. Shortening the time period between eligibility redeterminations is estimated to reduce annual Medicaid payments by approximately \$300.0 million Gross by FY 2033-34.

¹ Specifically, the provision requires compensation applicable to section 6 of the Fair Labor Standards Act, which currently sets the federal minimum wage at \$7.25 per hour.

² Verified by the state to have met requirements for one to three consecutive months immediately preceding application for new enrollees, and one or more months prior to a six-month redetermination. Verified months in state redetermination period are not required to be consecutive.

DELAYING NEW FEDERAL RULES

OBBA prohibits implementation of the following three new rule sets approved under the Biden administration until after September 30, 2034:

- “Streamlining Medicaid: Medicare Savings Program Eligibility Determination and Enrollment” rule (found [here](#)), with states originally having to comply with these new rules by April 2026.
- “Medicaid Program; Streamlining the Medicaid, Children's Health Insurance Program, and Basic Health Program Application, Eligibility Determination, Enrollment, and Renewal Processes” rule (found [here](#)), with states originally needing to be in full compliance within 36 months (or by June 2027).
- “Medicare and Medicaid Programs; Minimum Staffing Standards for Long-Term Care Facilities and Medicaid Institutional Payment Transparency Reporting” rule (found [here](#)), with states originally needing to be in full compliance by between three and five years (June 2027 or June 2029).

Taken together, delaying these new federal rule sets are estimated to reduce annual Medicaid payments by approximately \$1.1 billion Gross by FY 2033-34.

EXPANSION FMAP FOR EMERGENCY MEDICAID

Beginning October 1, 2026, emergency services provided to unauthorized residents, that otherwise meet Medicaid eligibility requirements, are only eligible for reimbursement at the rate of the annually revised Federal Medical Assistance Percentage (FMAP) rate for Traditional Medicaid. Michigan will not be able to apply the 90% FMAP if an unauthorized resident otherwise meets Healthy Michigan Plan eligibility guidelines. FMAP for FY 2025-26 is 65.30%. Federal law allows states to use Medicaid to provide reimbursements to providers who treat unauthorized residents that otherwise meet eligibility criteria for emergencies that meet one or more of the following:

- Place the patient’s health in serious jeopardy.
- Are expected to result in serious impairment to bodily functions.
- Are expected to result in serious dysfunction of any bodily organ or part.

RURAL HEALTH TRANSFORMATION PROGRAM

This program allocates \$50.0 billion to CMS to distribute as grants to states over a five-year period. Beginning in federal FY 2025-26,³ and continuing through federal FY 2029-30, states are authorized to receive a portion of an annually distributed \$10.0 billion grant pool. Grants received must be used for a rural health transformation plan that improves access, improves health care outcomes, prioritizes emerging technologies, emphasizes chronic disease management, develops and strengthens regional partnerships, enhances economic opportunities for health care providers, prioritizes data and technology-driven solutions, outlines strategies for long-term hospital solvency, and identifies causes of hospital closure and service reduction for designated rural areas of the state.

Of the annually distributed \$10.0 billion, \$5.0 billion is distributed equally among each of the 50 states.⁴ The remainder is to be distributed to each state through CMS consideration of the following:

- Percentage of state population located in rural census tract of metropolitan areas.
- Proportion of rural health facilities relative to rural facilities nationwide.
- The “situation” of a state’s rural hospitals.
- Any other appropriate factors determined by CMS.

³ States must apply during a period that has a statutory end date of December 31, 2025. Approved applications cover the entirety of the five-year grant period.

⁴ The District of Columbia and U.S. territories are not eligible for this grant pool.

HFA estimates that Michigan could receive approximately \$250.0 million per fiscal year through federal FY 2029-30.

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)

The Supplemental Nutrition Assistance Program (SNAP) is a federal program that provides monthly food benefits to low-income households to supplement their grocery budgets. In Michigan, SNAP is administered as the Food Assistance Program. OBBBA includes provisions that will shift a substantial share of the cost of SNAP to the states, as well as changes that will likely restrict SNAP-eligibility and lower SNAP benefit amounts.

BENEFIT STATE COST SHARING

Beginning October 1, 2027, the state will be required to contribute a set percentage of the cost of SNAP benefits. Previously, SNAP benefits were entirely federally funded. The required match is a sliding scale based on the state’s SNAP payment error rate, as shown in the table below. In FY 2027-28 states can choose to use their error rate from either FY 2024-25 or FY 2025-26. Beginning in FY 2028-29 the cost share will be calculated using error rates from three fiscal years prior.

Table 3: State’s Match Rates Based on SNAP Error Rates

State’s SNAP Error Rate	Required State Match
Less than 6%	0%
6% - 7.99%	5%
8% - 9.99%	10%
10% or greater	15%

This provision could result in increased costs to the state of between \$0 and \$602.0 million, depending on the state’s error rate. Michigan’s FY 2023-24 error rate was 9.87%, which would result in a 10% match requirement and increased costs of \$401.4 million. The magnitude of the increases could also be less depending on the extent to which other OBBBA provisions described below reduce food assistance caseloads and benefit amounts.

WORK REQUIREMENTS

There are several OBBBA provisions affecting SNAP work requirements that were effective on enactment. First, able-bodied adults without dependents (ABAWDs) are required to work through age 64, up from age 54, and the age of dependent children is reduced to under 14 years of age (down from under 18 years of age). Second, the U.S. Department of Agriculture (USDA) will no longer have broad discretionary authority to waive work requirements for ABAWDs in areas with insufficient jobs. Instead, an area must have an unemployment rate over 10% to qualify for a work requirement waiver. These changes will likely reduce food assistance program caseloads and associated benefit costs by an indeterminate amount, depending on the number of individuals currently receiving exemptions who will no longer be eligible for benefits under the new work requirements.

“HEAT AND EAT”

An additional OBBBA provision effective on enactment restricts the use of LIHEAP “Heat and Eat” payments to households with elderly or disabled members. Heat and Eat allows the state to use \$20 Low Income Home Energy Assistance Program (LIHEAP) energy assistance payments to automatically qualify households for the standard utility

allowance (SUA) in determining the household's SNAP benefit amount. This OBBBA provision will likely decrease the amount of federal LIHEAP funds that the state spends on the Heat and Eat program. Savings can be redirected to other LIHEAP energy assistance programs. This provision will also likely decrease benefit amounts for former Heat and Eat households that no longer qualify for the SUA, reducing food assistance program costs by an indeterminate amount.

ADMINISTRATIVE COST SHARING

Beginning October 1, 2026, the state will take on 75% of SNAP administrative costs, up from a 50-50% state and federal cost share. This would result in increased costs to the state of \$84.8 million, based on FY 2023-24.

NATIONAL EDUCATION AND OBESITY PREVENTION GRANT PROGRAM

Beginning October 1, 2025, the National Education and Obesity Prevention Grant Program will be eliminated. This will result in the loss of \$33.0 million of federal funds that are currently allocated through the Nutrition Education line item and passed through as grants to Michigan State University Extension and the Michigan Fitness Foundation.