The One Big Beautiful Bill Act: Implications for the State Budget

Bob Schneider, Senior Research Associate
Citizens Research Council of Michigan

Michigan State University Workshop: A More Resilient Michigan
October 29, 2025

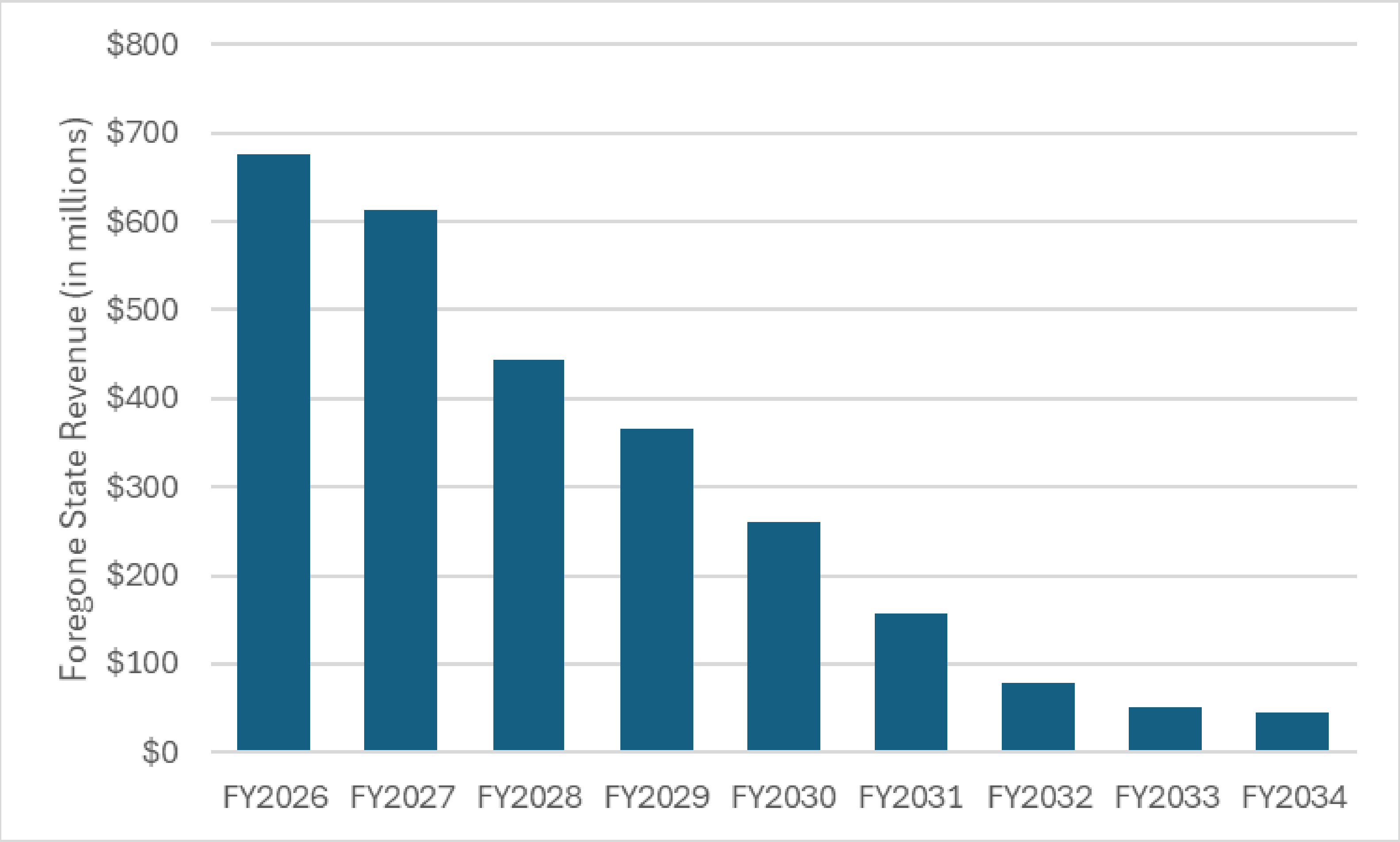
What You'll Hear Today

The enactment of the federal One Big Beautiful Bill Act (OBBBA) will have a significant impact of the State of Michigan's budget, but those impacts have changed with the new Fiscal Year 2026 budget agreement.

- How did the FY2026 budget agreement mitigate virtually all of the "right now" impact of OBBBA on the budget?
- Long term: How will new limitations on Medicaid-related taxes and cost-sharing for the Supplemental Nutrition Assistance Program (SNAP) affect the budget outlook in the coming years?
- Budget resiliency: Is the State of Michigan prepared to deal with the uncertainties regarding OBBBA, the national economy, and the post-COVID transition?

What Might Have Been: Mitigating OBBBA's Budget Impact

OBBBA Business Tax Relief and State Revenue



Source: House Fiscal Agency, [Fiscal Brief: The One Big Beautiful Bill Act of 2025]

Expensing of:

- Research & Experimental Expenditures
- Qualified Production Property
- Business Interest
- Business Assets Placed into Service in FY2025

Estimated revenue impact for FY2026: $677 million

Budget agreement: “decoupled” OBBBA business tax relief from state corporate income tax

Michigan's Insurance Provider Assessment

- OBBBA and an additional proposed change to federal rules would require the elimination of Michigan's Insurance Provider Assessment (IPA) in its current form
- Implications: $630 million in annual revenue; saves Michigan around $450 million in General Fund/General Purpose revenue resources
- Budget agreement provides a "fix" for the IPA
  - Michigan Department of Health & Human Services can restructure the tax to assess a flat tax rate on all health insurers (one that would comply with strengthened federal restrictions
  - Tax would continue to generate up to $630 million per year, so no revenye loss

“Coupling” Michigan to Other OBBBA Tax Relief

Michigan’s budget agreement included legislation to bring new OBBBA-related tax relief to some Michigan residents; however, tax savings are limited to tax years 2026, 2027, and 2028

- Qualified tips: deduction of up to $25,000 for tipped income earners; exemption phases down for higher-income households (starting at $150K single, $300K joint)

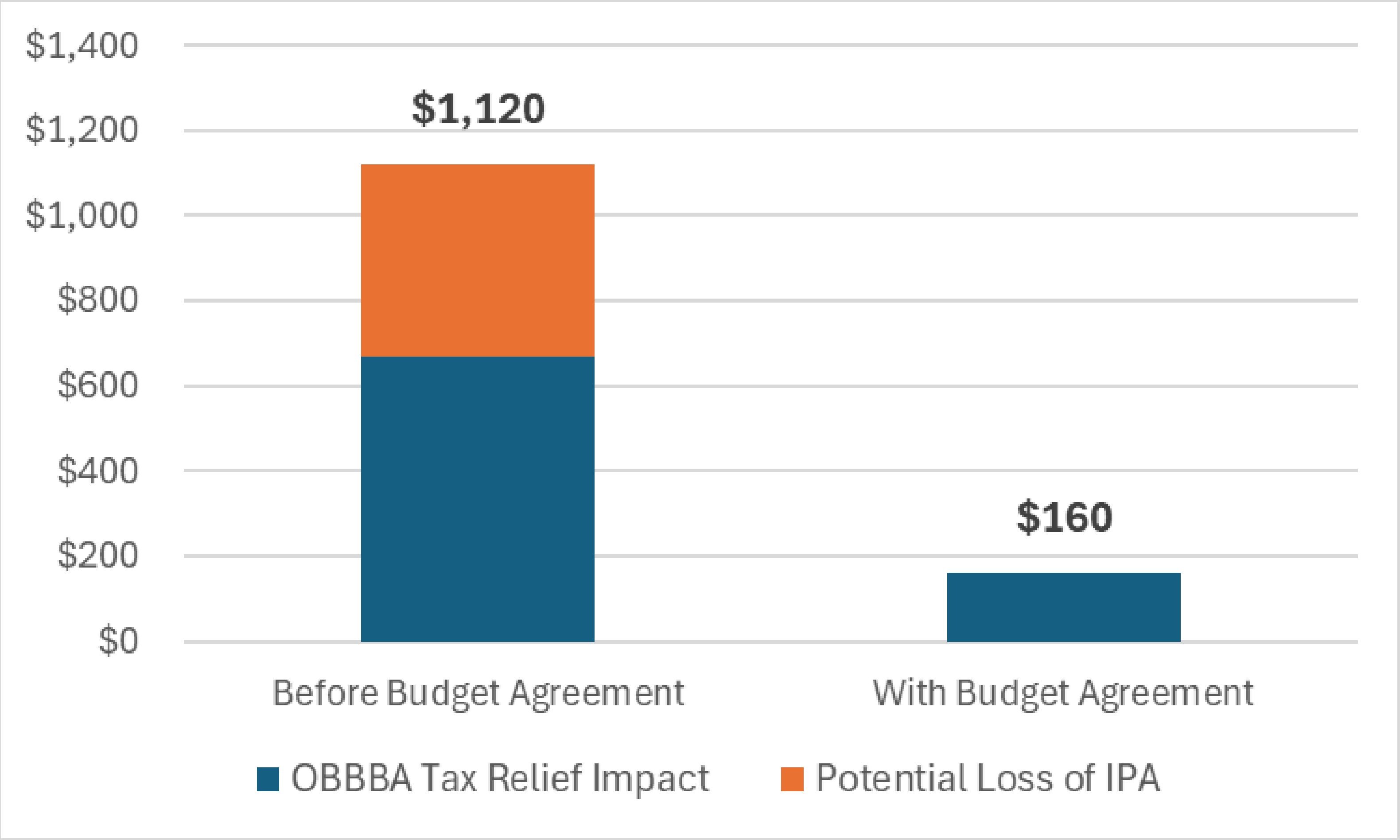
- Qualified overtime pay: deduction of $12,500 for individual or $25,000 for couples filing jointly; same phase down for higher-income households

- Under Michigan’s complex retirement income exemptions, retirees who have reached age 67 will now be able to deduct all Social Security income along with the existing deduction of $20,000 single filer/$40,000 joint filer

- Estimated annual revenue loss: $160 – 180 million annually across FY2026, FY2027 and FY2028

Mitigating the Impacts of OBBBA

Estimated FY2026 State Revenue Impact of OBBBA (in millions)



- OBBBA federal tax relief flowing into state revenues:
  - Before the agreement: $677 million impact on Michigan's corporate income tax revenue
  - With the agreement: $160 million in lost revenue (tips, overtime, retirees)
- Budget agreement includes a fix to OBBBA's more stringent requirements on taxes like the IPA
  - Avoids $450 million loss in state revenue supporting Medicaid

Still to Come:
Medicaid and SNAP Impacts

Hospital Quality Assurance Assessment (QAAP) Tax

OBBBA will reduce the cap on the tax from the current 6% of net patient revenue down to 3.5% by 2032.

Impact: Tax revenue is used in two ways:

- Most of the revenue leverages federal funds to increase hospital reimbursement payments under Medicaid; as rate declines, state either (1) reduces hospital reimbursement; (2) finds replacement revenue for the tax from elsewhere in the budget; or some of both
- Some of it (called the "retainer") directly offsets the need for state GF/GP revenue within Medicaid.

Impact on Hospital Provider Tax Limits on Michigan

Fiscal Year	Rate Cap	(1) Reduced Hospital Payments	(2) State Funding to Avoid Reductions	(3) "Retainer" Loss
FY2029	5.0%	$221 million	$66 million	$21 million
FY2030	4.5%	$672 million	$202 million	$63 million
FY2031	4.0%	$1.16 billion	$348 million	$112 million
FY2032	3.5%	$1.72 billion	$515 million	$165 million

Source: Michigan Department of Health and Human Services, *Executive Directive 2025-3 Report:* FY30 and FY32 extrapolated from report data.

SNAP: Increase in state cost sharing

- OBBBA will impose new cost-sharing requirements for states related to the Supplemental Nutrition Assistance Program (SNAP)
- SNAP Benefits: The federal government currently pays for 100% of SNAP benefits. Beginning in FY2028, states may have to share in these costs, with the share based on a state's error rate from three years prior

Error rate	State SNAP Benefit Share	Cost to Michigan
Less than 6%	0%	$0
6% to 7.99%	5%	$155M
8% to 9.99%	10%	$310M
10% or more	15%	$465M

- SNAP Admin: Currently shared 50-50 between federal government and states. Beginning in FY2027, states will be required to pay for 75% of admin costs; for Michigan, that means roughly $100M in added costs

CRC Assumptions About OBBBA’s Impact

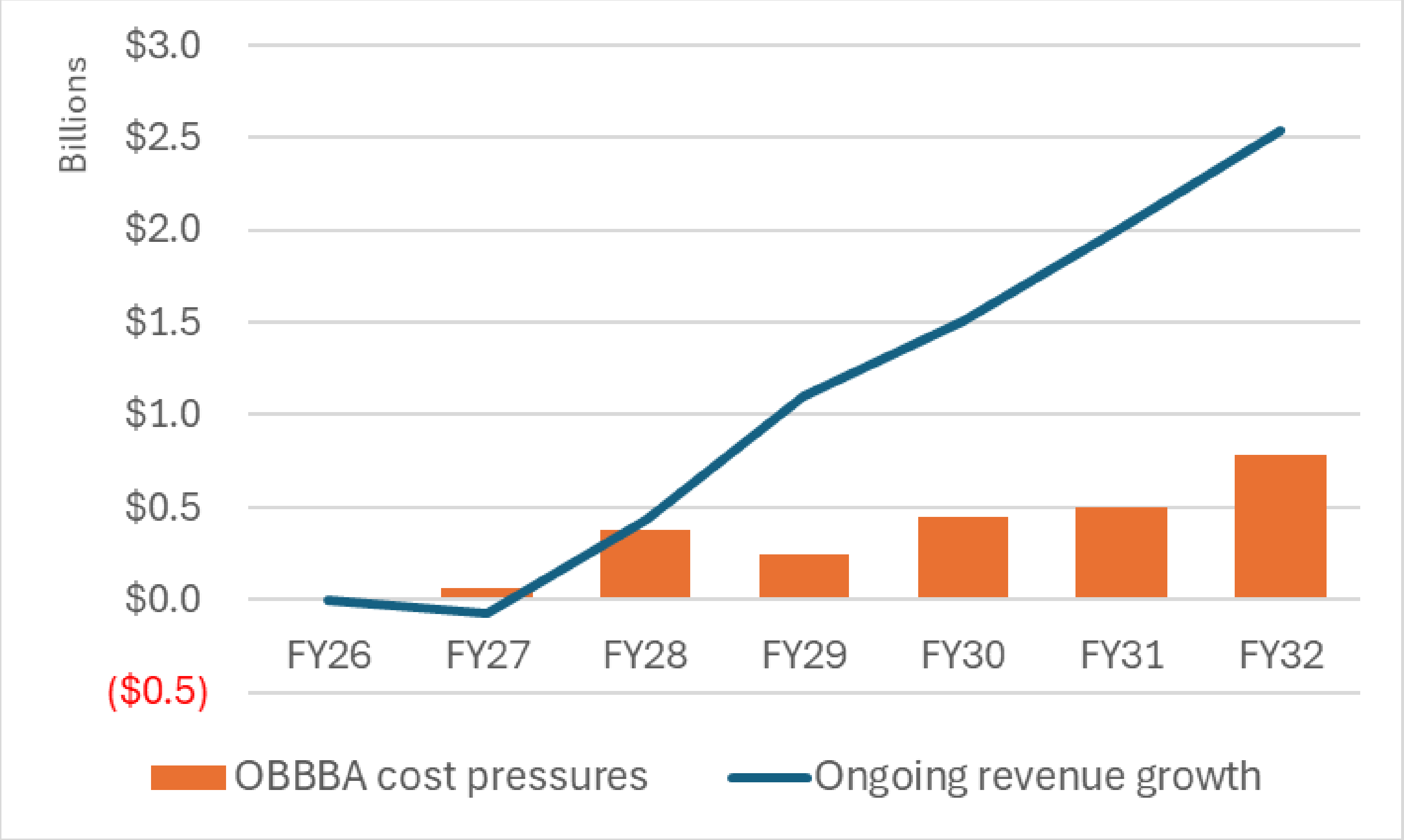
- Hospital Provider Tax: State of Michigan will identify reductions to other areas of the budget to keep the Medicaid program whole and avoid the magnified Medicaid reductions
    - To illustrate the challenge, $500 million loss of state revenue for Medicaid means more than $1.7 billion in Medicaid reductions once federal matching funds are added.

- SNAP Benefit cost sharing: State’s error rate will decline over time. Michigan will pay $310 million in FY28, but only $155 million in FY29 and FY30. Starting in FY31, the state’s error rate will fall below 6%, so the state will no longer have to contribute toward SNAP benefit costs

- SNAP Administration cost sharing: Michigan will permanently incur new SNAP administrative costs of around $100 million annually

GF/GP Budget Outlook Going Forward

GF/GP Anticipated Revenue Growth and OBBBA Cost Pressures

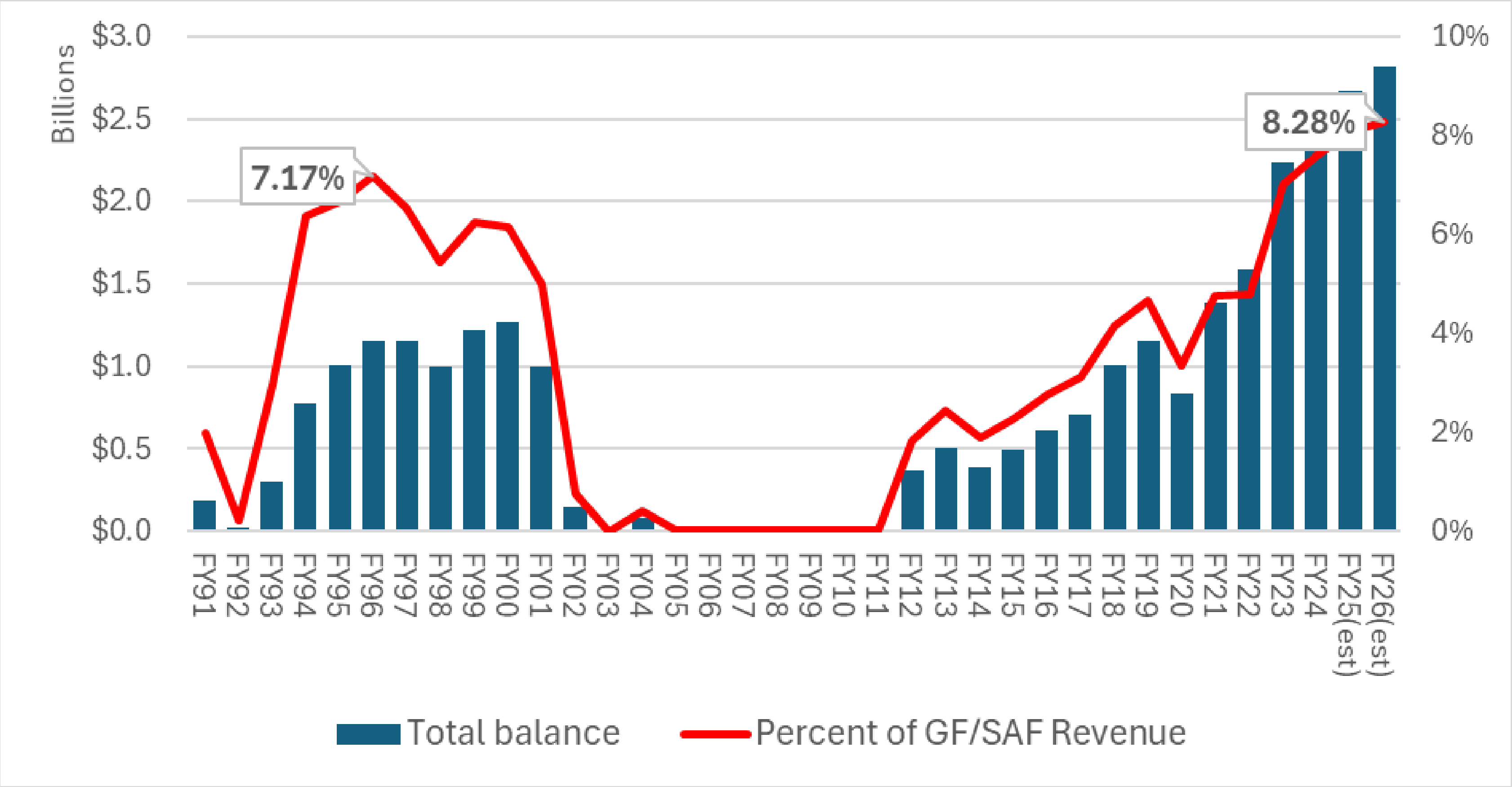


Source: GF/GP revenue reflects May 2025 Consensus Revenue Estimating Conference projections after adjusting for elements of the state budget agreement affecting revenues based on House Fiscal Agency analyses. Revenue for FY31 and FY32 reflect 3-percent inflationary growth since those years fall outside the CREC forecast period.

- Available revenue will fall slightly in FY27 due to the road funding plan's impacts:
  - Annualizing the revenue loss of removing sales tax on motor fuel (~$200 million)
  - Increase in tax earmarks to roads ($88 million)
- OBBBA cost pressures:
  - SNAP cost-sharing
  - Backfilling loss of hospital QAAP tax revenue
  - Assumed savings from other OBBBA Medicaid changes (e.g., work engagement, eligibility determinations) are netted out

A Broader Look at Budget Resiliency

Good News: Michigan's "Rainy Day Fund"

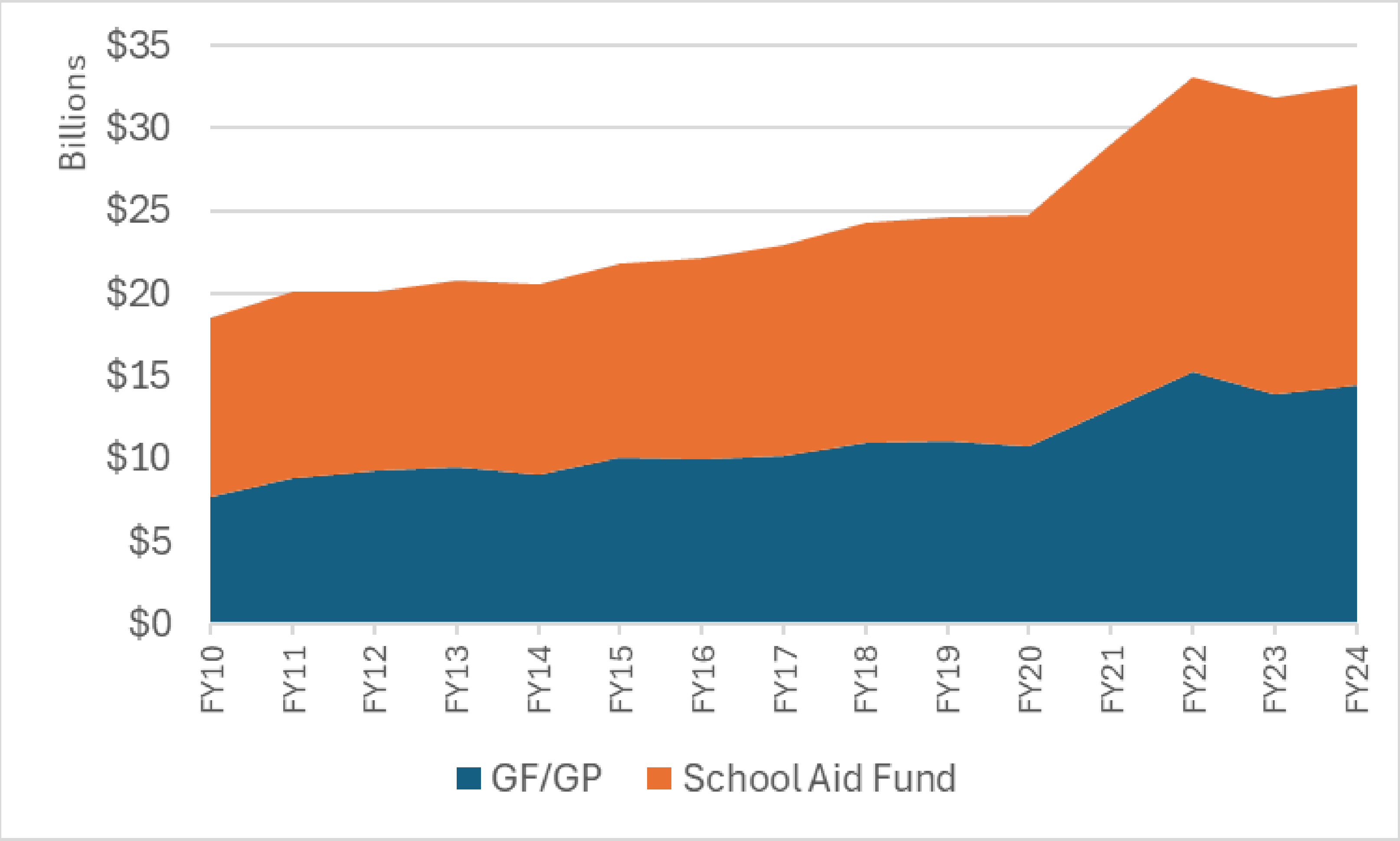


The balance in Michigan's "Rainy Day" funds is approaching $3 billion.

In FY2026, the balance equated to 8.28 percent of combined revenue from Michigan's two major revenue funds – General Fund/General Purpose (GF/GP) and the School Aid Fund (SAF)

Source: Budget Stabilization Fund balances from House Fiscal Agency, Economic Outlook and Revenue Estimates for Michigan: FY 2024-25 through FY 2026-27; Revenue data and School Aid Stabilization Fund balances taken from Michigan Annual Comprehensive Financial Reports. Data for FY2025 and FY2026 are estimates.

Post-COVID revenue boom

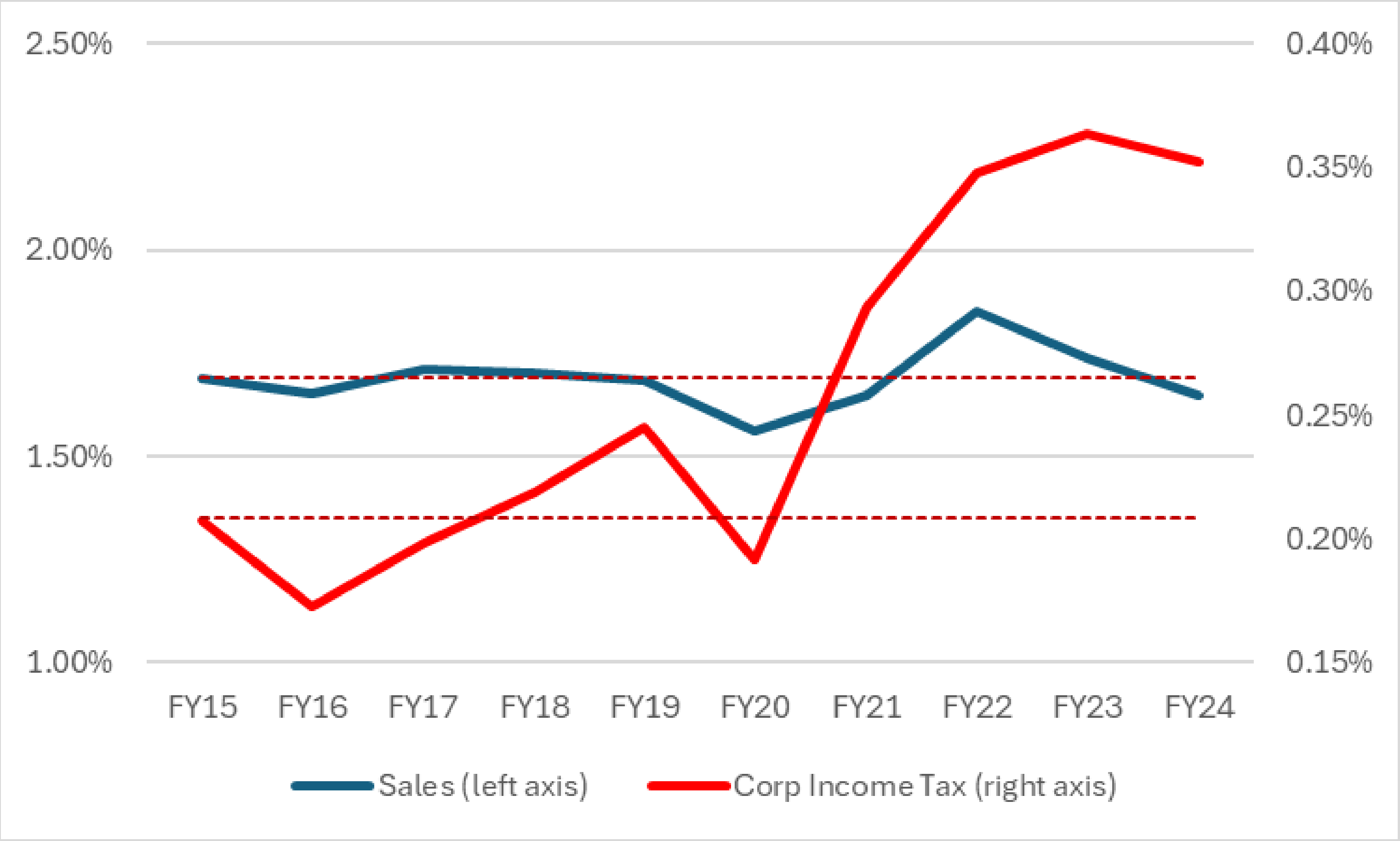


Source: State of Michigan Annual Comprehensive Financial Reports

- Despite employment decline, income growth was fueled by federal stimulus (e.g., tax rebates, Paycheck Protection Program)
- Sales tax: growth tied to boost in consumer spending on taxable goods (vs services)
- Corporate income tax: grew from $1.2 billion (FY19) to $2.2 billion (FY23 and FY24) as corporate profits grew

Revenue Risk: Corporate Income Tax (CIT)

Revenue as a Percent of Michigan Personal Income



Source: CRC analysis based on revenue data from State of Michigan Annual Comprehensive Financial Reports and Michigan personal income data from the U.S. Bureau of Economic Analysis.

Are we "back" from the revenue boom?

- Analyzing tax revenue as a percent of Michigan personal income
- Revenue trend lines reflect five-year pre-COVID average (FY15-FY19)
- Sales tax: back to trend (around 1.7% of personal income)
- CIT: remains well above trend (0.35% of personal income vs. 0.21% pre-COVID)

Questions?

Citizens Research Council of Michigan

Publications are available at: *www.crcmich.org*

Blogs are at: *www.crcmich.org/insights*

Please support our work: *www.crcmich.org/donate*

Follow Us on Twitter: @crcmich

Become a Fan on Facebook: www.facebook.com/crcmich

Find us on LinkedIn: www.Linkedin.com/company/citizens-research-council-of-michigan

Providing Independent, Nonpartisan Public Policy Research Since 1916