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Fitch: U.S. Tax and Spending Bill Poses Long-Term Challenges to State Budgets

Fitch Ratings-New York-31 July 2025: Federal spending cuts to Medicaid and the Supplemental Nutrition Assistance Program (SNAP) under the U.S. tax and spending bill will add budgetary pressure for states, offset by long implementation timelines, reduced enrollment and muted direct effects, according to a new report from Fitch Ratings.

Gradual implementation of spending cuts under the bill as well as states' broad fiscal powers support their ability make budget adjustments, but a weaker economic backdrop could constrain flexibility. In Fitch's view states are unlikely to significantly backfill federal reductions with their own funds, at least in the next 1-2 years.

Fitch's analysis of the Congressional Budget Office (CBO) estimates indicates that Medicaid savings are primarily achieved through measures reducing enrollment, which lower federal and state Medicaid spending. Implementation costs partially offset savings.

The largest direct effects on state budgets will be from SNAP cost-sharing requirements and limits on Medicaid provider taxes, which will lower reimbursements for healthcare providers and reduce federal matching funds for states. We estimate direct costs will be modest relative to state budgets, ranging from \$49.4 billion to \$275.1 billion for Medicaid, depending on state-specific provider tax provisions.

States are required to assume some SNAP benefit costs based on their SNAP error rate and increase their administrative cost contribution. The CBO estimates the bill would shift \$9 billion to states in federal FY 2028, representing 8% of projected federal SNAP spending that year and 0.6% of fiscal 2024 state tax revenues.

Federal tax changes in the bill could also affect state tax revenues depending on states' conformity with federal tax code changes. The impact will vary by state and tax type, with some states potentially decoupling from federal tax provisions with significant revenue effects.

A separate provision on health insurance tax credits will specifically affect New York, requiring a more aggressive fiscal response. The complexity of the bill suggests other states may also face unique challenges.