

---

# Impact of Federal Reconciliation Bills on Maryland

---

Presentation to the  
Joint Federal Action Oversight Committee



June 2025

# Overview

- Both House and Senate reconciliation proposals will adversely impact Maryland finances and result in some Maryland residents losing access to entitlement programs
- Details of the Senate plan remain in flux creating much uncertainty about the scope of the final package
- This presentation covers Medicaid, Supplemental Nutrition Assistance Program (SNAP), and revenue impacts
- There is some uncertainty about how the Centers for Medicare and Medicaid Services will interpret and implement Medicaid provisions related to provider taxes and coverage of certain immigrants. Depending on the interpretation, the impact could range from minimal to significant



# Overview

- Potential fiscal 2026 impacts include
  - Cost shifts for SNAP and Medicaid that could approach \$100 million in State funds in fiscal 2026
  - Lower general fund revenues if SALT deduction cap is raised above \$10,000 for tax year 2025
- Out-year impacts are potentially far more significant and could exceed \$800 million annually
  - The proposals shift \$300 to \$450 million of SNAP costs to the State
  - Maryland's Healthy Babies Program may lose federal match (\$104 million) and if the State chooses to continue to cover undocumented pregnant immigrants through the program federal penalties will cost the State another \$250 million annually
  - Medicaid work requirements and more frequent eligibility redeterminations should generate net savings for the State after accounting for administrative costs
  - Revenue decreases may result if the State and local tax (SALT) deduction cap is raised above \$10,000 and/or if the State allows other federal tax changes to flow through to State taxes
- National estimates for Maryland indicate that about 130,000 Medicaid recipients may ultimately lose coverage due to work requirements and more frequent eligibility redeterminations. Another 7,000 undocumented pregnant immigrants are at risk of losing Medicaid coverage
- SNAP work requirements will impact 150,000 to 180,000 people and could result in a significant number losing benefits



---

# SNAP – Cost Sharing

---



# SNAP – Cost Sharing Requirements

---

- Under current law
  - The federal government pays 100% of the benefits for SNAP
  - The administrative costs are shared evenly (50/50) between the State and federal government

# Benefit Cost Sharing



## House Reconciliation Bill

- Beginning in federal fiscal year (FFY) 2028, all states would be responsible for a 5% cost share
- Higher cost shares would be required if a state's payment error rate is 6% or higher
  - 15% if the payment error rate is 6% to 8%
  - 20% if the payment error rate is 8% to 10%
  - 25% if the payment error rate is 10% or higher

## Senate Announced Plan

- Beginning in FFY 2028, states would be responsible for a cost share if the payment error rate is 6% or higher
  - 5% if the payment error rate is 6% to 8%
  - 10% if the payment error rate is 8% to 10%
  - 15% if the payment error rate is 10% or higher
- In FFY 2028, states could use either the FFY 2025 or 2026 rate in determining the cost share. Beginning in FFY 2029, the cost share would be based on the 3-year average of payment error rates



# Impact of Cost Sharing Changes

---

- Current estimated benefit costs in FFY 2028 are \$1.5 billion
  - For each 5% cost share at that level, Maryland would be responsible for \$75 million
- Maryland's most recent payment error rate (18.98% in FFY 2023) would make the State responsible for the maximum under both proposals
  - \$375 million under the House bill
  - \$225 million under the Senate announced plan



# Payment Error Rate

---

- Under current law, the payment error rate includes a tolerance of \$37 (in 2014 dollars) – adjusted each year for inflation
- The House reconciliation bill reduces the tolerance to \$0, which is expected to increase State payment error rates
- The Senate plan does not include this change



# Administrative Cost Sharing

---

- Both the House reconciliation bill and the Senate announced plan increase the State share of Administrative costs from 50% to 75%
  - The House bill makes the change upon enactment
  - The Senate plan makes the change beginning in FFY 2027 (October 1, 2026)
  - Annualized impact of change is about \$83 million



# Work Requirements – Current Law

---

- Able-bodied adults without dependents are limited to receipt of benefits for 3 months in a 36-month period unless working or participating in employment and training for an average of 20 or more hours per week (80 hours per month)
- Individuals are exempt if physically or mentally unfit to work, pregnant, caring for a dependent child, homeless, a veteran, or under age 25 and aged out of foster care
- States receive discretionary exemptions annually that relieve the requirement for 1 month per exemption
- States or subareas within a state may receive a waiver if the unemployment rate is above 10% or there are not enough jobs. Through June 30, 2025, Maryland has waivers for 5 counties and 3 municipalities
- Between May 2024 and April 2025, the Department of Human Services(DHS) reported 26,285 cases were closed (at least temporarily) due to failure to meet work requirements, of which 7,377 were reopened during that period



# Work Requirement Proposed Changes

## House Reconciliation Bill

- Increases the upper age limit from 54 to 64
- Expands requirements to households with dependents age 7 and above
- Limits authority of Secretary to issue waivers to counties or county equivalents with an unemployment rate over 10%
- Reduces discretionary exemptions to 8% to 1% of caseload
- Maintains current exemptions

## Senate Announced Plan

- Increases the upper age limit from 54 to 64
- Expands requirements to households with dependents age 10 and above
- Limits authority of Secretary to issue waivers to areas with an unemployment rate over 10%
- No changes to discretionary exemptions
- Removes exemptions for homeless, veterans, and former foster youth



# Work Requirements – Impact on Marylanders

---

- As of May 2025, DHS reports there were 667,981 SNAP recipients
- Increasing the upper age limit – DHS reports up to 66,726 recipients could be impacted (could be lower depending on other exemptions)
- Expansion to parents
  - DHS reports up to 111,227 adult recipients could be impacted by House bill (could be lower depending on other exemptions)
  - DHS is still determining the impact of the Senate plan
- Reducing the authority to issue waivers – none of Maryland's jurisdictions would meet this requirement



# Other SNAP Changes

- Under current law, all households are able to exclude income from energy assistance. In addition, households who receive a Low Income Home Energy Assistance Program benefit of \$20 or more qualify for a higher SNAP benefit
  - Both the House reconciliation bill and Senate plan would limit to households with individuals with disabilities or who are elderly
- Both the House bill and Senate plan effectively exclude refugees and asylees from receiving benefits



---

# Medicaid Provisions

---



# Medicaid Overview

- Medicaid and the Maryland Children's Health Program (MCHP) are joint federal and state entitlement programs that provide comprehensive health care coverage to eligible low-income and medically indigent individuals
  - As of May 2025, there were just under 1.3 million Marylanders enrolled in Medicaid and approximately 197,000 children enrolled in MCHP
  - Maryland's federal match for Medicaid spending is generally 50%, with some populations receiving a higher federal match (90% for the Affordable Care Act (ACA) expansion group and 65% for MCHP)



# Work Requirements

- Establishes an eligibility requirement for ACA expansion adults ages 19 to 64 to work or participate in qualifying activities (educational or work program) for 80 hours per month
- States are required to exempt certain adults (parents/caretakers of a dependent child, disabled adults, etc.)
- Under the House bill, effective no later than December 31, 2026
- Under the Senate plan, states may be exempted from these requirements until December 31, 2028, if the state demonstrates a good faith effort to comply



# Eligibility Redetermination

---

- Under current law, states must redetermine Medicaid eligibility for participants at least every 12 months
- Both the House and Senate versions of the bill would require eligibility redeterminations at least every 6 months for ACA expansion adults, starting with renewals on October 1, 2027
- MDH estimates that administrative costs for redetermination would increase by \$22.6 million, which would be more than offset by savings from disenrollments



# Projected Impact of Disenrollments

---

- The Kaiser Family Foundation estimated that approximately 130,000 adults could lose coverage in Maryland from the reconciliation provisions, including work requirements and eligibility redeterminations
  - This estimate is 39% of the May 2025 ACA expansion enrollment of 331,252
  - The Department of Legislative Services (DLS) projects that annual savings from these disenrollments would be \$1.1 billion in total funds (\$112 million in general funds) starting in State fiscal 2029
  - These savings from disenrollment would be partially offset by the increase in administrative costs to establish work requirements and conduct more frequent eligibility checks



# Provider Taxes

## House Bill

- Limits states from increasing existing provider taxes or establishing new provider taxes, effective upon enactment. Existing provider taxes are grandfathered in
- Waivers for the requirement that provider taxes be broad-based and uniform may not be available in the future

## Senate Proposal

- Gradually reduces the cap on provider taxes by 0.5% of net patient revenues each year beginning in federal fiscal 2027 until the cap decreases from 6% to 3.5% in FFY 2031
- The reduced cap would not apply to nursing homes and facilities for individuals with developmental disabilities



# Current Assessments Supporting Medicaid

---

- In fiscal 2026, MDH and the Health Services Cost Review Commission (HSCRC) will receive a combined \$738 million from hospital assessments
- Maryland also generates State revenue from nursing home (\$158 million) and managed care organization assessments
- MDH indicates that these assessments are not expected to be reduced due to the Senate's cap proposal



# Projected Impact of Provider Tax Changes

- No further increases or new assessments would be allowed
- Maryland's current implementation of hospital assessments is at risk due to two concerns
  - Maryland collects hospital assessments through HSCRC's rate setting authority rather than through the Centers for Medicare and Medicaid (CMS) process for approving Medicaid provider taxes. This creates some uncertainty going forward
  - Current assessments apply to hospitals regulated by HSCRC. To meet CMS uniform and broad-based tax requirements, MDH may need to expand the tax to other specialty hospitals
- Technical provisions in the bill may require Maryland to expand the existing nursing home provider tax and MCO assessments to entities that are currently exempt



# Coverage of Qualified Immigrants

- The Senate proposal adds a new provision that limits the definition of qualified immigrants covered under Medicaid and MCHP to lawful permanent residents and other specified exceptions, such as Cuban nationals and individuals in the United States under a Compact of Free Association
- This provision generally removes coverage for refugees and asylum seekers
- Effective October 1, 2026
  - This provision would lead to disenrollments of immigrants no longer qualified for comprehensive coverage or the State could maintain coverage with only State funding (without penalty to the ACA federal match as discussed in the next provision)
  - The projected impact on enrollment is not yet known



# Coverage of Undocumented Immigrants

- Effective October 1, 2027, for states that extend Medicaid coverage to undocumented immigrants using State funds, the ACA expansion federal match would be reduced from 90% to 80%
- Other provisions include
  - Eliminating the federal match for coverage during the reasonable period to provide documentation of immigration status
  - Under the Senate proposal, reducing federal reimbursement to the standard match (50% for Maryland) for EMS provided to undocumented immigrants who would otherwise be in the ACA expansion group



# Projected Impact of Changes to Coverage for Undocumented Immigrants

---

- Maryland covers the following through Medicaid/MCHP
  - Emergency medical services for undocumented immigrants
  - Noncitizen pregnant women through the Healthy Babies program (receives enhanced 65% match)
- The State fiscal 2026 budget includes \$104 million in federal matching funds for the Healthy Babies program that could be at risk
- Fully funding the Healthy Babies program with State funds could potentially trigger a reduced ACA matching rate. Based on the fiscal 2026 budget, a 10% reduction in the ACA matching rate would be approximately \$250 million



# Prohibitions on Coverage/Reimbursement

---

- Prohibit federal reimbursement for all services from certain abortion care providers, effective for 10 years upon enactment
  - Services provided by Planned Parenthood would no longer qualify for a federal match
  - MDH estimates a State fund impact of \$2.5 million to replace lost federal matching funds
- Prohibit federal matching funds for certain gender affirming treatment and prohibit essential health benefits for ACA expansion adults from including gender transition procedures
  - To the extent the State continues to cover gender affirming treatment and gender transition procedures, costs will shift from federal to State funds
  - Based on existing utilization of gender affirming care, MDH estimates a \$905,000 cost shift from federal to State dollars



# Other Medicaid Provisions

---

- Additional changes include
  - Reduced retroactive coverage of medical expenses incurred prior to enrollment (currently set at three months)
  - Authorization for expanded cost sharing
- The provisions outlined in this presentation are not exhaustive and may change with further debate at the federal level



# Summary of Budget Impact

|  | House  |   | Senate |  | Enrollee Impact  |
|--|--------|---|--------|--|--|
|  | Timing | Annualized Amount   | Timing | Annualized Amount  |  |
| SNAP Administrative Cost Share Increase from 50% to 75%                          | SFY 26 | \$83 M  | SFY 27 | \$83 M   | None   |
| SNAP Benefit Cost Sharing*   | SFY 28 | \$375 M   | SFY 28 | \$225 M  | None   |
| SNAP Work Requirements   | SFY 26 | Reduced State & Federal benefit costs. Increased administrative costs   | SFY 26 | Reduced State & Federal benefit costs. Increased administrative costs          | 150,000 to 180,000 additional people subject to work requirements'   |
| Medicaid Work Requirements   | SFY 27 | Reduced State & Federal benefit costs (about \$112 M State and \$900 M federal on annual basis). Increased administrative costs   | SFY 29 | Generally same as House. Fewer parents would be excluded from work requirement | Kaiser Family Foundation estimates 130,000 people will lose coverage due to additional redeterminations and work requirements. ACA expansion population is currently about 330,000 |
| Medicaid Eligibility Redetermination for ACA Expansion Population Every 6 Months | SFY 27 |   | SFY 26 |  |  |
| Prohibition of Paying Certain Abortion Care Providers                            | SFY 26 | \$2.5 million cost shift to State assuming State maintains coverage of non-abortion services delivered by Planned Parenthood. Abortion care services are already fully State funded | SFY 26 | Same as House  | If State funds services with State dollars, no impact on enrollees   |

\*Amounts based on FY 23 error rate. Numbers could be less If State is successful in reducing error rate.



# Summary of Budget Impact (cont.)

|  | House  |   | Senate |  | Enrollee Impact  |
|--|--------|---|--------|--|--|
|  | Timing | Annualized Amount   | Timing | Annualized Amount  |  |
| Reduced Federal Match Rate for Coverage of Undocumented Immigrants | SFY 28 | <b>Possible</b> loss of federal funds for Healthy Babies program (\$104 million cost shift if State continues program with State dollars) and increased State funded ACA expansion costs of \$250 million from federal penalty of 10% | SFY 28 | Same as House  | If State drops Healthy Babies Program, loss of Medicaid benefits for undocumented pregnant women except for labor/delivery costs. May 2025 enrollment was 7,542 participants |
| Eliminate Federal Match for Certain lawfully present immigrants    | N/A    | N/A   | SFY 27 | Cost shift to State if it wishes to continue coverage of refugees and asylees (other groups). Amount TBD | TBD  |
| Coverage of Gender Affirming Treatment                             | SFY 26 | Loss of federal match. Less than \$1 million cost shift to State based on 2024 experience   | SFY 26 | Same as House  |  |
| Provider Taxes   | SFY 26 | TBD - Maryland hospital tax established under HSCRC authority not Medicaid provider tax. All Maryland provider taxes may need to be modified to be more broad-based   | SFY 26 | Same as House  | None   |



---

# Tax Provisions

---



# Tax Provisions Overview

---

- Extend and modify various expiring individual income tax provisions of the federal Tax Cuts and Jobs Act of 2017, which otherwise sunset after 2025
- Establish and modify various other individual income tax credits and deductions
- Terminate various energy tax credits enacted under the federal Inflation Reduction Act of 2022
- Make various other U.S. business and international tax changes
- Make changes concerning the administration of certain federal tax credits and filing programs

# SALT Provisions



| Current Law  | House Bill   | Senate Bill  |
|--|--|--|
| <p>Current \$10,000 SALT deduction limitation expires after tax year 2025.</p> | <ul style="list-style-type: none"> <li>• Extends and increases the SALT deduction limitation to \$40,000 (\$20,000 if married filing separately) for tax year 2025. The enhanced limitation phases out for taxpayers with modified adjusted gross income (AGI) over \$500,000 (\$250,000 if married filing separately). These amounts increase by 1% annually for tax years 2026-2033.</li> <li>• For tax years after 2025, disallows the use of SALT cap “workarounds” by passthrough entities classified as specified service trades or businesses.</li> <li>• <b><i>Compared to the DLS end of session general fund forecast, provision may reduce Maryland revenues beginning with tax year 2025.</i></b></li> </ul> | <ul style="list-style-type: none"> <li>• Permanently extends the \$10,000 SALT deduction limitation.</li> <li>• In addition to the amount of any unused portion of the \$10,000 after personal tax deductions, allows the deduction of an additional \$40,000 or 50% of passthrough entity taxes (whichever is greater) for tax years after 2025.</li> <li>• <b><i>Provision is consistent with the DLS end of session general fund forecast.</i></b></li> </ul> |



# Other Individual Tax Provisions

| Provision  | Current Law   | House Bill  | Senate Bill  |
|--|---|---|--|
| <p>Limitation on Tax Benefit of Itemized Deductions (Pease Limitation)</p> | <p>The Pease limitation is reinstated after tax year 2025. In general, this limitation reduces otherwise allowable itemized deductions by the lesser of (1) 3% of AGI over a specified applicable amount or (2) 80% of otherwise allowable itemized deductions.</p> | <p>Permanently repeals the Pease limitation and limits the tax benefit of the SALT deduction to 32% and the tax benefit of other itemized deductions to 35% for tax years after 2025.</p> <p><b>May positively affect Maryland revenues for tax year 2026 and beyond.</b></p>   | <p>Permanently repeals the Pease limitation and limits the tax benefit of itemized deductions to 35% for tax years after 2025.</p> <p><b>May positively affect Maryland revenues for tax year 2026 and beyond.</b></p> |
| <p>Deduction for Qualified Passenger Vehicle Loan Interest</p>             | <p>In general, an individual may not deduct personal interest paid or accrued during the tax year.</p>  | <p>For tax years 2025-2028 only, allows an above-the-line deduction of up to \$10,000 of interest paid on indebtedness incurred after 2024 for the purchase of an applicable passenger vehicle for personal use, subject to a U.S. final assembly requirement. The deduction begins to phase out for taxpayers with modified AGI in excess of \$100,000 (\$200,000 for joint filers).</p> <p><b>May adversely affect Maryland revenues for tax years 2025-2028.</b></p> | <p>Proposes a similar, <i>below-the-line</i> deduction available to both itemizers and non-itemizers and limits eligibility to new vehicles.</p> <p><b>Not expected to directly affect Maryland revenues.</b></p>      |

# Business Tax Provisions



| Provision  | Current Law   | House Bill   | Senate Bill   |
|--|---|--|---|
| Expensing of Research and Experimental Expenditures      | For tax years after 2021, taxpayers must amortize specified research or experimental expenditures ratably over a 5-year period (15-year period in the case of expenditures attributable to research conducted outside the United States). | Temporarily reinstates expensing for domestic research and experimental expenditures for tax years 2025-2029.<br><br><b><i>May adversely affect Maryland revenues in the near term.</i></b>  | Permanently reinstates expensing for domestic research and experimental expenditures for tax years after 2024. Taxpayers with gross receipts not exceeding \$31 million for tax year 2025 may apply the provision retroactively to tax year 2022.<br><br><b><i>May adversely affect Maryland revenues in the near term.</i></b> |
| Increased Business Interest Expense Deduction Limitation | For tax years after 2021, adjusted taxable income for purposes of the business interest expense deduction limitation includes allowable deductions for depreciation, amortization, and depletion.   | For tax years 2025-2029 only, adjusted taxable income for purposes of the net business expense deduction limitation is calculated without regard to deductions for depreciation, amortization, or depletion.<br><br><b><i>May adversely affect Maryland revenues in the near term.</i></b> | For tax years after 2025, adjusted taxable income for purposes of the net business expense deduction limitation is calculated without regard to deductions for depreciation, amortization, or depletion.<br><br><b><i>May adversely affect Maryland revenues in the near term.</i></b>  |



# Business Tax Provisions (cont.)

| Provision  | Current Law   | House Bill  | Senate Bill   |
|--|---|---|---|
| Special Depreciation Allowance for Qualified Production Property | In general, nonresidential real property is depreciated over a 39-year recovery period. | Establishes a 100% special depreciation allowance for certain qualified production property used in agricultural or chemical production that is placed in service after the date of enactment and before January 1, 2033.<br><br><b><i>May adversely affect Maryland revenues in the near term.</i></b> | Establishes a 100% special depreciation allowance for certain qualified production property used in agricultural or chemical production that is placed in service after the date of enactment and before January 1, 2031.<br><br><b><i>May adversely affect Maryland revenues in the near term.</i></b> |

# Maryland Conformity

- The Comptroller must report the impact of an amendment of the Internal Revenue Code (IRC) on State revenues and various classes and types of taxpayers within 60 days of enactment
- Maryland automatically decouples from an amendment of the IRC for (1) the tax year that begins in the calendar year in which the amendment is enacted and (2) any preceding tax year if the Comptroller determines that the State revenue impact is at least \$5 million in (1) the fiscal year that begins in the calendar year in which the amendment is enacted or (2) any preceding fiscal year