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FIVE MORE PROBLEMS WITH THE 'ONE BIG BEAUTIFUL BILL'

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As Republicans worked their way through the budget reconciliation process this year, PPI analyzed the most harmful features of the "One Big Beautiful Bill Act" (OBBBA) they eventually passed: increasing budget deficits by upwards of $4 trillion over the coming decade, regressively redistributing resources from the poorest Americans to the wealthiest, and undermining macroeconomic stability. But while these significant flaws have been widely reported, OBBBA is also littered with special interest giveaways and other problems that have received relatively less coverage. Here are five additional ways in which Trump's signature legislative achievement is even worse than you may have realized:

1. Encourages Inaction on Reducing SNAP Error Rates

Before the bill's passage, the federal government would pay for nearly all SNAP benefits. But under OBBBA, states will now have to pay an escalating share of SNAP costs, depending on how high their error rate is. This plan was a major sticking point for Senator Lisa Murkowski, whose vote they needed to pass the bill. Her home state of Alaska has the highest error rate in the nation, at 25%. To secure her support, Republican leaders tried to just exempt her state entirely from the cost-sharing requirements. However, after the parliamentarian ruled that this did not comply with the rules of reconciliation, Republicans decided upon a different strategy. In their new plan, *any state* that in 2025 or 2026 has an error rate above 13.3% would be exempt for up to two years from the requirement after its 2028 implementation.

In the short term, this provision does nothing to incentivize states to improve their SNAP error rates and, in fact, creates a perverse incentive to increase them. There are already nine states (plus the District of Columbia) above the 13.5% threshold, with another 11 only a few percentage points away. Under the new requirement, states already above the threshold have little reason to do anything to lower their error rates in the near term, while those on the margin might be incentivized to push themselves over the threshold to delay the requirement.

Even when the requirement is finally in place for every state, the law's other changes to SNAP will hamper efforts to effectively reduce payment error rates. For example, OBBBA changes the federal government's share of administrative costs to 25% — down from 50% under prior law — meaning that states now have to shoulder increased administrative costs associated with tracking payments, at the same time that they are being told to reduce them.

2. Expands Federal Aid for Wealthy Farmers

While the law makes large cuts to the nutrition safety net for low-income Americans, it expands the agricultural subsidies for wealthy farmers. Federal farm subsidies were already extremely regressive before the passage of this bill, with many programs' benefits flowing mostly to the largest and wealthiest farms, which have little risk of financial failure. For example, roughly 77% of the total subsidies in the Federal Crop Insurance Program (the largest federal program) go to the top 20% of farms by crop sales.

Republicans made these subsidies even more regressive. OBBBA further increases premium support for Crop Insurance by 3-5%, offering farmers both increasingly generous premium subsidies and coverage. The law also substantially expands Price Loss Coverage, a program that makes payments to farmers when the market price of a covered crop goes below a government "reference price," increasing reference prices for various crops between 10-20% and increasing the likelihood that farmers receive a payout. Finally, the law increases the cap on maximum payouts farmers can collect from various agricultural programs from its previous $125,000 to $155,000. At the same time, Republicans defeated a bipartisan proposal that would have meant-tested benefits and ensured that more support went to struggling farmers. In sum, the bill's many agricultural program expansions added nearly $66 billion to the bill's cost without making any attempt at fundamental reform.

3. Turns Back the Clock on American Energy

To offset a small portion of its new spending, OBBBA repeals the Inflation Reduction Act's (IRA) green energy credits. But in an effort to retain support from battleground Republicans worried about ongoing projects in their state or district, the law nominally retains some of the credits for an additional few years. However, under the law's new rules on "prohibited foreign entities," these credits could become functionally impossible to claim, even if they remain on the books. Prohibited foreign entity rules are intended to prevent firms in nations such as China, Iran or North Korea from participating in critical supply chains or benefitting from government subsidies. While these rules have existed since the passage of the IRA, OBBBA made them far more onerous.

A company seeking to claim the credits will now be required to verify a far more expansive set of contracted firms, suppliers, and debt holders than ever before to ensure that they are not owned or operated even in part by a prohibited foreign entity. For companies that operate with long and complex supply systems, the costs of doing so could prove prohibitive at best. In addition, the law's many vague definitions leave substantial leeway for the administration to write the rules in ways that are even more restrictive — something they explicitly promised to do at passage and have already begun to implement.

While hobbling clean energy incentives, OBBBA supercharges subsidies and tax breaks for fossil fuel producers. The bill opens up more federal land for oil and gas drilling, while decreasing the royalties that fossil fuel companies must pay to do so. Oil and gas companies received a new break, allowing them to exempt drilling costs from their income, which makes them practically exempt from the Corporate Alternative Minimum Tax. Coal producers also received a new tax break to make metallurgical coal, which is used in the production of steel, despite the fact that it is not used in U.S. steelmaking and is typically exported overseas.

These policies will make energy both less clean and more expensive for American households. According to one analysis of the law, its energy provisions alone will increase costs for the typical American household by up to $192 while cutting the deployment of clean energy in half over the next 10 years.

4. Funds Private Schools Using Taxpayer Dollars

The bill makes permanent and creates new tax benefits that will almost exclusively benefit private schools and the families that attend them**.** One example is the expansion of 529 college savings accounts, which disproportionately benefit the affluent households that have the most disposable income to save and are in the higher tax brackets that gain the most from its tax-free growth. OBBBA permanently extends a provision enacted in 2017 that allows parents to use 529s for elementary and secondary education tuition and expenses. But by doing nothing to address the notoriously regressive nature of 529s, this change merely helps wealthy parents pay for their child's private school tuition tax-free.

In addition, OBBBA creates a new benefit to further funnel taxpayer resources to private schooling. Donations to "scholarship-granting institutions" – intermediary organizations that fund vouchers for students to attend private schools – will now receive a dollar-for-dollar tax credit on donations up to $1,700, meaning that a donation to these groups is essentially fully reimbursed by the federal government. This goes far beyond the income deduction granted to other charitable donations, giving private schools a massive tax advantage over other groups — such as churches, cancer research centers, or food banks — by making the donation essentially cost nothing. In addition, the credit has few guardrails to prevent abuse or even target those who would most benefit. For example, student eligibility is tied to 300% of an area's median income, which for a family of four in many metro areas is nearly $500,000. Rather than help a low-income family pay for private schooling, the benefit could merely give a tax benefit for wealthy children who would have paid for private school anyway.

5. Strains State Budgets

In addition to blowing up the federal budget, OBBBA also places an enormous strain on state governments. The bill's deep federal cuts to core safety net programs like Medicaid and SNAP, while nominally saving money for the federal government, mostly just push those costs onto states. According to the National Governors Association, the law's cuts to these two programs alone would leave states with roughly $111 billion in increased costs to absorb. Most states have balanced budget requirements and operate on narrow margins, meaning that they are not equipped to handle a shock of this size without sharp benefit cuts or tax increases. As a result, Medicaid coverage could shrink, food assistance could be cut, and program administration will suffer.

The cuts will also impact state budgets in indirect ways. For example, the federal school lunch program allows communities to qualify if over a quarter of their students are enrolled in federal aid programs like SNAP or Medicaid. But if OBBBA cuts push enough families off those programs, these schools will lose eligibility, jeopardizing food access for children and requiring states to fill in the gap to ensure those children still have access to meals. Moreover, the bill's substantial cuts to green energy credits will imperil infrastructure projects and other economic activity that would have brought tax revenue to states.

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ABOUT THE AUTHOR

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